

# THE INDONESIAN QUARTERLY

## Indonesia in the Face of Globalisation

### Current Events

### Review of Political Development

### Articles:

- Indonesian Foreign Policy at the Advent of the 21st Century
- Coastal Management in an Enclosed Sea Environment: An Indonesian Case in the Preservation of Coastal Ecosystem

- Economic Reform in Indonesia: The Transition from Resource Dependence to International Competitiveness
- Indonesia's Mineral Potential and the Awakening of Its Mineral Industry
- Labour and Women in Java: A New Historical Perspective
- Internal Migration Between Java-Bali and Eastern Indonesia

### Book Review



# The Quarterly

## The Logo



*The Indonesian Quarterly* is a journal of policy oriented studies published by the Centre for Strategic and International Studies (CSIS), Jalan Tanah Abang III/23-27, Jakarta 10160. It is a medium for research findings, evaluations and views of scholars, statesmen and thinkers on the Indonesian situation and its problems. It is also a medium for Indonesian views on regional and global problems. The opinions expressed in *The Indonesian Quarterly* are those of their authors and do not necessarily reflect the opinion of the CSIS.

To better represent the underlying ideas that gave birth to the CSIS in 1971 the Centre uses as of 1989 the logo that figures on the front cover of this journal. The original, in bronze, designed by G. Sidharta, it consists of a disc with an engraving that depicts the globe which serves as a background to a naked man with an open book laid on a cloth over his lap, his left hand pointing into the book, his right hand raised upwards. Altogether it symbolises the Centre's nature as an institution where people think, learn and communicate their knowledge to whoever are interested, to share it with them, mankind the world over being their concern and the globe their horizon. The nakedness symbolises the open-mindedness, the absence of prejudice, in the attitude of the scholars who work with the Centre, just as it is with scholars everywhere. The inscription reads "*Nalar Ajar Terusan Budi*", which in the Javanese language essentially means that to think and to share knowledge are only the natural consequence of an enlightened mind. It is a *surya sengkala*, that is *chandra sengkala*, a Javanese traditional way to symbolise a memorable year in the lunar calendar, adapted to the solar calendar system. It consists in using words that express the perceived meaning of the commemorated year while marking the year at the same time, each word having a numerical value. Thus, the inscription, in reverse order, represents the year the CSIS was established: 1971.

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## Contents

### Current Events

- On Foreign Influences: The Indonesian Case  
*Umar Kayam* 214
- Banking Restructuring in the Era of Globalisation  
*J. Soedradjad Djiwandono* 220

### Review of Political Development

- The Increasing Challenge of Regime's Legitimacy  
*Sudibjo & Donni Edwin* 226

### Articles

- Indonesian Foreign Policy at the Advent of the 21st Century  
*Hasjim Djalal* 233
- Coastal Management in an Enclosed Sea Environment: An Indonesian Case in the Preservation of Coastal Ecosystem  
*R.M. Sunardi* 248

- Economic Reform in Indonesia: The Transition from Resource Dependence to International Competitiveness  
*Ali Wardhana* 257
- Indonesia's Mineral Potential and the Awakening of Its Mineral Industry  
*Soetaryo Sigit* 273
- Labour and Women in Java: A New Historical Perspective  
*Peter James Hancock* 290
- Internal Migration Between Java-Bali and Eastern Indonesia  
*Soewartoyo* 303

### Book Review

- Analysis of ABRI's Dual Function  
*M. Abriyanto* 323

## **Current Events**

### **On Foreign Influences\*: The Indonesian Case**

*Umar Kayam*

**F**OREIGN influences have been penetrating Indonesia even as long as the first century. Traders from China, India, the Middle East and much later from Europe came to the strategically located archipelago to look for spices, woods, forest product, rice, gold which were, at that time, abundant in the islands which in turn were bartered with silk, textiles, various kinds of crafts and other products from the mentioned countries. Trade contacts and contracts brought also other kinds of exchanges namely languages, which later became "market" languages, stories about their respective countries, which later grew to exchanges of other concepts of science, technology, literature and religion. In those days, China, India and the Middle East were the superpowers since they mastered the sciences and technology and had the

courage and the know-how to explore the unknown worlds.

When their religions were introduced to their trade partners in Southeast Asia and later embraced by the natives, another dimension of foreign influence developed. When Buddhism in 8th century Sriwijaya, South Sumatra, became the religion of the kingdom, the kingdom did not only flourish as a powerful and prosperous emperium but developed itself as a great learning centre of Mahayana Buddhism in Southeast Asia where Buddhist monks and laymen came over from various parts of Southeast Asian and South Indian regions. Buddhism was also embraced in the kingdom of Mulawarman in East Kalimantan also in the 9th century in Mataram and in the 14th century was one of the most important religion, together with Hinduism, in the kingdom of Majapahit in East Java.

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\* Paper presented at International Seminar on the 50th Anniversary of Bank BNI, Jakarta, July 9, 1996.

The most convincing influence and remnants of Buddhism in Indonesia are



among others the Borobudur and Mendut temples in Central Java which were built by King Sanjaya of Mataram in the 9th century. Hinduism came later in the archipelago and flourished in several kingdoms in Java with Majapahit from the 14th until the 16th century which was the greatest Hindu empire in the archipelago. Until this very day Hinduism is still embraced in the island of Bali. Islam came in the archipelago through its first penetration in the most northern tip of Sumatra, in Aceh, where later Islamic kingdoms were established in the region. Smaller Islamic kingdoms were also established in the 17th century at the northern coast of Java which later reached its peak at the kingdom of Mataram (II) in southern Central Java between the 17th to the 18th century. Islamic kingdoms, were also established in Makasar and Bone, both in South Sulawesi, and smaller kingdoms in Sumatra and Kalimantan. Today Islam is embraced by about eighty per cent of the Indonesian population.

Christianity entered the Indonesian archipelago together with the European spice traders in the Moluccas and other eastern islands of the archipelago. The waves of European traders, the Portuguese, the Spanish, and the British, who came not only to trade but also to conquer the spice market and introduce christianity came to an end after finally the Dutch took over the trade monopoly and later started to colonize the archipelago in the 17th century for about three hundred years. When the Netherlands-Indies was established and consolidated, the Dutch also established and introduced European modern sciences and technology, public

school system, and modern economy and monetary system. Twenty per cent of Indonesia's population embrace christianity, Protestant as well as Catholic, and are scattered in the cities and regions in Sumatra and Manado in North Sulawesi.

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Long contacts with foreigners resulted not only in casual or skinddeep acquaintances but also mutual deeper influences which later could grow into stronger roots. Century long contacts with Buddhism and Hinduism through trade contacts had resulted in changes in religious perceptions, worldviews and concepts about state and statecrafts. Buddhist and Hindu kingdoms, small and great, flourished and vanished in Sumatra and Java, bringing new civilizations, concepts in organizing communities into more complex and intricate states and statecrafts, religious and state rituals, developing the concept of theatre states (to use Clifford Geertz concept). Sanskrit became the court language, at the same time the Sumatrans and the Javanese adapted Old Malay and Old Javanese historical annals, inscriptions and literature. Buddhist temples and Hindu puras were built and developed along the adapted Javanese and Balinese architecture inspired by the Indian classical concepts of architecture.

The same is also true with Indonesian Islamic mosques all over the country which were developed according to a blend of indigenous architecture and foreign inspiration. Old Javanese literature was inspired by the Indian great epics of Ramayana and Mahabharata and Buddhist as well as Hindu tales and stories.



But the Javanese and Balinese authors and sages made their own interpretation and developed their own Old Javanese literature. The two famous Indian epics also become important sources of repertoires in the Javanese *wayang kulit*, the shadow leather puppet show, and the *wayang wong*, the human *wayang* theatre. As in literature the Javanese and Balinese puppeteers made their own interpretation and recreation repertoires. The Javanese and Balinese music outgrow the Indian and Southeast Asian influences and have developed into indigenous Javanese and Balinese *gamelan*, a unique pentatonic scale music that until today are studied and admired and even played by international scholars and musicians.

Islam's influence did also leave her imprint in the Indonesian culture. The Islamic tradition of education system through *pesantrens*, boarding schools which teach the reciting and studies of the Holy Quran, was introduced and practised throughout the villages all over the archipelago. In literature the influence of Sufi and Tareqat literature was also felt in Aceh and Javanese literature. But again, as in the Buddhist and Hindu literature, the indigenous Muslim authors developed their own style and interpretation of original texts. Indonesian Islamic music, despite its strong influences from the Middle East, has also its own indigenous characteristics. The earlier Buddhistic and Hinduistic concepts on state and statecraft were shifted into the Islamic tradition and view. But the shifts of influence of the concept did not depart radically from the earlier concepts of state and statecraft. The basic view that accepted the king as a *dewa-raja*,

a king that was a reincarnation of a god, was shifted into the view that the king was a *Kalifatullah*, the messenger of God. The Javanese calendar is a curious blend of the Arabic lunar year and the Hindu Saka year which was created by Sultan Agung of Mataram in the 17th century.

The window which was meant to view the western world, Europe, was only a small window through the colonial administration of the Netherlands-Indies. The Dutch colonial administration did not open the window widely, but only barely open which was considered as good enough to give the opportunity for the natives to get basic education on the modern sciences. The purpose of the policy was to maintain the number of the well educated colonial bureaucrats at the minimum level in the order not to encourage an increase of a large native intellectuals which could pose a serious threat to the colonial hegemony.

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The influences that were exerted by the old super-powers took place in a very long span of time through trade and religion. The process of adaptation of the foreign influences and later on the indigenous-ation of the adapted influences occurred by stages of adjustments and readjustments. The penetration of influences of foreign cultures in the archipelago happened in a peaceful way albeit in a very long time. The French expression of the process was "penetration pacifique" which was to be distinguished from the exertion of the foreign influences through war and conquest. The long and peaceful process of influence gave the Indo-



nesians ample enough room to do experimental exercises after reflections and pondering. How could we explain the realisation of such beautiful monuments as Borobudur, Mendut and the Pura Besakih without considering the long time and peaceful factor.

The European traders who penetrated the archipelago were a different breed of traders. They were traders who were aggressive and wanted to conquer the land which yield the products of the trade. They wanted to establish themselves as masters of the new lands. Thus were the Portuguese, the Spanish, the British and the Dutch who later became colonial imperialists. Their basic concept and approach was to earn a maximum profit from the trade through conquest and then systematically exploit the resources of the conquered land. A kind of state organisation and administration was established with the only purpose to plunder the colony in a more efficient and modern way. With this kind of approach one could not possibly talk about "penetration pacifique", and in turn one could not speculate about creative adjustments of the colonialisised people. How could one talk about creative adjustments of the colonialisised people if they were only programmed to serve the purpose of the colonial masters. The case of Indonesia was not different from the mentioned pattern. During the three hundred years of colonisation by the Dutch there was no monumental creativity produced by Indonesians.

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The twentieth century has witnessed man's spectacular achievements. Since the

industrial revolution the world has seen endless findings and discoveries in many field. Discoveries and findings made various kind of radical breakthroughs in man's life. It is as if the miseries of the long past dark ages which make life so difficult for man has reached its final hour. Machines after machines, tools after tools, gadgets after gadgets, were being invented and absorbed by markets all over the world changing so many life-styles of people. One can only muse and chuckle in recollecting how life was like at the turn of the 19th and 20th centuries when they compare it with today's life with all its comfort. It was as it were only yesterday when we did not know radio, gramophone, telephone, television, refrigerator, electric house appliances -- things that are so much part of our daily life today. And not to mention the presence of motor cars, motor bikes, aeroplanes and trains, transportation means that have changed our perception of time and are inseparable from our daily life. The twentieth century has been decisive in shaping the latest idiom of modernity in our life.

But findings and discoveries in science and technology do not stand alone. They are but inseparable links within a system that shape the totality of the modern world. When science and technology get more complex they need, for instance, the helping hand of the economy and the financial world. Science and technology need to be backed up with more funding, money, when researches in the two fields get more and more complex and very expensive. The economic system backs up science and technology after it decided



that science and technology could be absorbed into the dynamics of the economy.

Thus the economy backs up science and technology which in turn transfer the products into commercial commodities. The capital system, from then on, takes over the dynamics in spreading the industrial products to the markets. In spreading the commodities which means selling and peddling the products to the world, the capital system tries to persuade the market to adopt the products as parts of their life-style or life habit. In case persuasion does not work, the capital system is ready to do more arm-twisting by brutal force. This is the other side of the picture of the capital system. And that is why the twentieth century has made progress in many sectors of life and also produced two world wars, World War I and World War II, which were continued by many protracted wars in many parts of the world.

The Dutch started to colonize Indonesia as a mercantile imperialist and through the three centuries by experimenting a colonial administration or a kind of colonial statecraft that was ushered into the early years of modern capitalism. Administrative or bureaucratic infrastructures to back up the Netherlands-Indies were filled with experienced people from the Dutch mother country while the rest of personnel were filled with Indonesian natives who were educated or trained civil servant graduating from elementary or secondary schools.

As stated earlier the Dutch colonial administration did not intend to prepare the Indonesian natives to occupy high posts in the bureaucracy and therefore they did not feel compelled to establish

higher education or universities in the archipelago. There were, of course, schools to train lower echelon bureaucrats, elementary and secondary schools, even one medical, one engineering and one agricultural academies, which were not enough to meet the need of the population. The way Indonesians accomodate and adjust themselves in a such rigid colonial policy was, of course, to comply with the strict policies of the colonial administration. As mentioned earlier during the three hundred years of colonialisation, aside from a few mediocre achievements, no masterpieces were produced.

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When Indonesia finally managed to proclaim its independence and establish a nation state that is called "Indonesia" which was built on the basis of diversities of all cultures that sustain the archipelago, Indonesia inherited from the Netherlands-Indies and the short-lived Japanese occupation all sorts of bureaucracies and infrastructures that were barely effective and efficient to meet the demand of a modern nation. Beside the two kinds of inheritance Indonesia also inherits its traditional-cultural products of the dim past which are apparently still deep rooted in the people's subconscious level. The credo of the new nation state is to build a new nation that is capable to determine her own way to the status of modernity. Soon Indonesia embarked upon several political and economic experiments. The people have learned the hard way to fulfil the credo but still manage to overcome many crises. They realise that being modern is to have a power system that will be an



open and democratic power system with a functioning control mechanism. Indonesians also realise that the economic system must be an open and competitive system which is constantly protected by the law system. Modernity must also be able to develop an industry which is strong and able to sustain a healthy economic growth. The education system in a modern society should be able to guarantee and provide education to all citizens. Arts in a modern society should reflect the artistic and creative expression of the people and guaranteed by the power system of her freedom. Finally the belief system in a modern society should guarantee the citizen's preference to embrace any denomination and reflect the tolerance of the people.

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Indonesia's traditional inheritance from the past was a power system which was an absolute feudal system and an economic system based on a traditional agriculture. The root of both systems was strong and has managed to create a worldview among the people who were accommodative to the mentioned systems. The colonial Netherlands-Indies which supposedly introduced western concepts and worldview, as mentioned earlier, was not successful in uprooting the traditional worldview of an absolute feudal system. Instead, the Netherlands-Indies created a status quo between the feudal and colonial worldviews and let the feudal system and economy prevail. The colonial policy and strategy in maintaining the two traditional systems in status quo were meant to strengthen the colonial hegemony in the Netherlands-Indies. When Indonesians stated a new credo for the

new and independent Indonesia they realised that the traditional worldviews were still very strong and deep-rooted in the society, realising that modernity requires a different kind of ingredients. When one takes a deep look in the contemporary modern world to find new ideas and inspiration of modernity, one would find that modern world has changed radically. The capitalist system has developed into a global capitalist system, a system that is much more sophisticated in controlling the international market. Findings and achievements in science and technology, for instance, has been developing into many more sophisticated products backed up by giants of capitals and industries. The system has grown into a global capitalist system with many long and strong tentacles persuading local markets to adjust and comply with the global system. Local economic and even political system must also adjust to global system or will otherwise perish. The world is getting more competitive but always geared towards the global system. Science, technology, the educational system, banking system, artistic expressions, are all oriented towards global system. The world has never before witness such a powerful system. It is global because the capitalist system is sustained by a global capital whereas the previous capitalist system were capitals that were confined in separate countries. The management of the system is also global, the sale and promotion infra-structures are also globally organised. The whole world drink coca-cola and eat McDonald hamburgers; men over the world wear Levi's faded jeans and youngsters sing after the Beatles. Hotels and



models of apartments look the same all the world over and more and more restaurants throughout the world serve fast food. Professionalism in business management follows the same global management system. Life style and family taste have never been looking so global. One begins to wonder whether we are truly in the process of homogenising the world where at last one can talk about one human global culture.

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But culture is a dynamic dialectic process of system. New systems will be always offered but counter-systems would also be presented. There will be always constant tug-of-wars between systems which finally, at particular moment at least, will arrive at a synthesis. When the synthesis takes a more permanent shape and becomes a new thesis it will be challenged again by new concepts of systems.

The nation state of Indonesia is an "anti-thesis" of the colonial Netherlands-Indies. The goal is to achieve Indonesia's modernity with her own model and characteristics. But with long and strong tentacles of the ruthless albeit effective and efficient global capital system, how could the credo and goal be achieved? Among many pessimistic speculation and even fear of failures due to the weak infrastructures one should consider and remember Indonesia's long past experience in anticipating and accomodating the "penetration pacifique" of the then superpowers of China, India and the Middle East. Although done in a slow and step by step fashion Indonesians did manage to develop a great cultural synthesis of Buddhism, Hinduism and Islam. With our meager and lean experience with the West and Christianity the people did manage to lay the basis of modernity. Considering all that Indonesia should not be pessimistic, despite global capitalism, in anticipating modernity.

## Banking Restructuring in the Era of Globalisation\*

*J. Soedradjad Djiwandono*

### Introduction

**A**T the turn of this century rapid economic, technological, and geopolitical changes are the order of the day. A right mixture of these changes will certainly benefit all of us. But, basic-

ally these changes present banking industry with both challenges and opportunities. In the occurrence of swift changes,

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\* Keynote speech delivered at International Seminar on the 50th Anniversary of Bank BNI, Jakarta, July 9, 1996.



the banks should do their best to transform new challenges to opportunities. To that end, banking sector needs to restructure itself. I would like, therefore, to present Bank Indonesia's policy with respect to the bank restructuring to adjust to prevailing changes as well as to face new challenges and opportunities. It will also touch on some steps as well as preparations which banks need to conduct in facing current rapid changes which seems to continue well to the future facing current rapid changes which seems to continue well to the future.

### The Sea of Changes

In the last decade, we have witnessed accelerated evolution -- if we hesitate to say revolution -- in our life. Though swift changes have been occurring in many aspects of our life, I will focus more to highlight the fundamental changes in our economy and financial sector -- in part due to the rapid and structural changes of the world economy and finance -- which have brought up the need to restructure Indonesia's banking industry.

During the last ten years, Indonesia is enjoying high economic growth and encountering **economic transformation**. In the last decade, our economy has experienced significant progress, recording average economic growth of 7.5 per cent annually in real terms. The high growth rate was primarily stimulated by growth in non-oil/gas exports and investment. Non-oil/gas exports in real terms rose 16.7 per cent on average annually, while average real investment rose 10.0 per cent annually. The high economic growth was also facilitated by a relatively

low average inflation rate of 8.5 per cent annually. The relatively low inflation rate was an essential factor which enabled Indonesia to record high growth rates for a long period. As a result of this satisfactory economic performance, Indonesia is now categorised as one of the dynamic emerging markets.

The heartening economic performance of Indonesia was also followed by fundamental economic transformation. *First*, the role of the private sector in the national economy has become increasingly important, which was partly reflected in the development of non-oil/gas exports and private aggregate demand. The share of non-oil/gas exports to total exports of goods rose from approximately 30 per cent in 1985 to over 75 per cent in 1995. In the meantime, the private investment to GDP ratio rose from 25 per cent to more than 32 per cent. The *second* fundamental change is the shift of economic structure from the agricultural sector to the manufacturing sector. The contribution of manufacturing sector to GDP increased from 17.5 per cent in 1985 to 24.0 per cent in 1995 while the contribution of agricultural sector decreased from 25 per cent to 16 per cent. The *third* fundamental change is that the Indonesian economy is increasingly integrated with world economy. Our exports to GDP ratio rose from 20 per cent in 1985 to 25 per cent in 1995, while ratios of Foreign Direct Investment to GDP and to exports rose from 0.6 per cent and 3 per cent respectively to 3 per cent and 13 per cent. Furthermore, the level of integration may also be seen in the ratio of banks foreign liabilities to GDP, which rose from 0.6 per cent in 1985 to more than 6 per cent in 1995.



These various progress and changes also brought some consequences. In conjunction with the greater role of the private sector, macroeconomic management is increasingly dependent on market mechanisms and the Government's role is increasingly directed toward efforts to create and maintain a level playing field to ensure that market mechanism works smoothly and fairly. Moreover, the integration of Indonesia's economy with the world economy has necessitated the use of more sophisticated macroeconomic management and reduced the Government's direct role in the implementation of national development -- to ensure the continuity of national development. In the past, the private sector business activities did not create any significant impact in the national efforts of maintaining economic stability. Nonetheless, as the private sector's contribution to GDP becomes greater, the private sector -- particularly large scale businesses -- can no longer disregard the implication of their business activities on macroeconomic stability. Therefore, the principle of sustained growth -- which the Government has consistently adopted in managing the macro economy -- must also be adopted at the micro level.

In the financial sector, the processes of deregulation and globalization, as well as continuous technology development have led to a fundamental transformation. Series of deregulatory measures in the financial sector have brought up dynamic advancement in our banking industry as well as other financial institutions. At the end of 1995, we have total of 240 banks with more than 6,000 offices, compared to 116 banks with around 1,500 offices. In the same period, banks succeeded to mobilised funds up

to Rp 170 trillion and extended loans up to Rp 235 trillion, compared to Rp 20 trillion and Rp 21 trillion respectively. The deregulations in financial sectors also opened up alternative sources of funds. Presently, companies may utilise various alternative sources of funds outside banks to finance their business activities, such as the capital markets or other non-bank financial institutions. Securitisation process has started to proliferate.

The capital market has grown rapidly. The number of companies listed in the Jakarta Stock Exchange has increased tremendously, from 24 companies at the end of 1985 to 238 companies in December 1995 while the size of funds mobilised from the issuance of those shares has also risen sharply from Rp 89 billion to Rp 152 trillion. At the same time, trading of shares on the Jakarta Stock Exchange has also risen sharply, from Rp 3 billion in 1985 to Rp 32 trillion in 1995. These indicate rising tendencies among businesses to move away from relying solely on bank credits to more diversified sources of finance in the conduct of their business.

Apart from the issuance of shares or bonds on the stock exchange, businesses may also obtain alternative financing for their business activities by issuing commercial papers or from other financial institutions, for example, financing from leasing companies, venture capital, factoring companies, and others. As in the case of shares or bonds issued on the stock exchange, business activities of financial institutions have also accelerated recently. This shows that financing needs, which were used to be obtained only from banks, have begun to



shift to alternative sources of funds, i.e. non-bank financial institutions.

Rapid technological advancements have encouraged innovations in financial activities. The development of information and communication technology has increased the number of new financial products, including derivatives. In the future, we may witness many financial innovations through the use of computer networks, including electronic money. The technological progress has also encouraged the rise of transactions across national borders and increased the number of banks operating outside their national borders, known as financial globalisation.

In recent years, the operation of financial institutions has been broadened and therefore not limited to any particular country or region. Financial sectors in the world have become unified, and national or regional borders have become obscure. With securitisation and so many other financial innovations, new financial instruments proliferate and they become globalised also in the sense that one is no longer distinctly different from the other. "Borderless" is not just true with respect to geographical or time dimension, but also the features of financial instruments. This process of globalisation is more likely to strengthen in the future along with efforts to drive a global trading mechanism, for both goods and services. The implementation of WTO accords, including GATS as well as APEC, among others, will result in the increase of foreign banks operating in Indonesia, followed by the easing of barriers with respect to their operations, as have been demanded so far. Lately, there has been an increase

of activities among giant foreign banks to operate overseas, particularly in dynamic emerging markets. This is characterised by the rising amount of foreign assets held by those banks in countries where they are located. In the future, it is likely that those banks will expand their businesses to Indonesia in view of the attractive prospects here. In general, those banks are very competitive, possessing advantages such as highly knowledgeable and professional human resource, use of sophisticated technology as well as the variety of products that may be tailored to increasing sophisticated needs of financing of Indonesian customers.

### Current Banking Conditions

In conjunction with rapid national development, Indonesian banks have recently experienced accelerating growth followed by heartening results in the amount of business and activities as well as products generated. This development gives more weight to the role of banks in national development. It also shows that the public has widely utilised banking services to ensure the smooth flow of their business activities. In other words, rapid development in the financial sector itself constitutes challenges as well as opportunities for our financial institutions.

In the fiscal year of 1995/96, business activities of banks rose sharply. The growth of business volume increased to 30.4 per cent from 15.6 per cent in the previous fiscal year. This was primarily due to higher fund mobilisation and loan extension in conjunction with rising economic activity.



In line with the rapid business expansion, total bank profitability, measured by the current profits to total assets ratio, rose from 0.6 per cent in 1994 to 1.8 per cent in 1995. The higher bank profitability was also related to improvements in banking efficiency. In 1995, the operating cost to operating income ratio was 92.2 per cent, an improvement compared with 95.3 per cent in the previous year.

The heartening progress of our banking sector was made in the mid of the on-going process of consolidation. Our banking sector is now still working arduously to resolve the huge amount of non-performing loans owing to various reasons, including the overheating of our economy in the 1988-1991 period and the implication of various policies to cool down the economy afterwards. In December 1995, the percentage of non-performing loans still recorded a high figure, i.e., 10.4 per cent, though lower than 12.1 per cent in the earlier year.

### **Banking Restructuring**

In the face of new challenges and opportunities from the external as well as internal sides, national banks are forced to make adjustments to enhance their efficiency and competitiveness through various restructuring measures. In view of preparing national banks to be able to respond to new challenges and opportunities, we believe that efforts to encourage banks to conduct restructuring is increasingly crucial, without which the Indonesian banking industry will not be as competitive in the future as we would like to have. Moreover, the restructuring should also be carried out

timely as changes will proceed and competition will become increasingly intense. In this condition, only those who are constantly prepared to face new developments will be able to survive and grow. Banking restructuring is expected to facilitate banks to be more prepared to face changes.

With respect to the importance of banking restructuring, Bank Indonesia has made concerted efforts to include banks to take measures to enhance their business performance. The measures are among others to strengthen their financial structures; to review comprehensively their core businesses, and to take advantage of technological advances. Bank Indonesia's policy to stimulate the restructuring process are partly related to a series of efforts to encourage banks to: (a) merge, (b) formulate bank development strategy, and (c) raise the professionalism of bank management. I will explain these points briefly.

Mergers between banks are expected to raise the capacity of merged banks that will enhance the much needed competitiveness of national banks. Mergers may be carried out between sound banks, particularly when banks experience difficulties in raising capital or do not possess expertise in an area whereby the necessary expertise may be found in another bank. This will result in positive impacts as described in the foregoing section, for banks that merged or for the banking system as a whole. The emergence of large banks from mergers will open opportunities for national banks to participate in the international banking arena.

With respect to the formulation of bank development strategy, banks should periodically examine their operations to en-



hance their efficiency as well as competitiveness. This may include: (a) evaluating bank business activities particularly activities which are not the core business of banks, (b) improving the operation system and procedures toward greater efficiency, (c) increasing fee-based income activities, (d) reviewing the broadening of regional operations coverage including expansions overseas toward the globalisation of business networks, (e) utilising more sophisticated technology, and (f) choosing the market segment.

When the results of the assessment reveal that banks need to change their operational patterns, banks will have to reorientate their businesses to adjust to the changes. When the reformulation results are approved, they should be compiled into business plans submitted to Bank Indonesia. The reformulation is necessary since fundamental environmental changes have occurred which are no longer suitable for future conditions compared with conditions at the time the bank was established. It is our hope that through all these efforts, the competitiveness of each bank as well as the industry, will be enhanced to face global financial dynamism.

With respect to efforts to raise the level of professionalism, no one will ever doubt that the quality of bank management is a crucial matter. In an era of globalisation in the world economy with intense competition, banks are faced with an increasing demand for conducting their works efficiently. To that end, banks must be managed by personnel or managers who are professional and competent supported by high moral va-

lues. Professional management is one of the requirements that will enable banks to grow and succeed in a competitive environment. In this regard, Bank Indonesia made a provision for banks to allocate a special funds for training purposes.

## Final Remarks

The Indonesian banking structure in the future will be affected by current banking restructuring. For this reason, restructuring the banking industry will remain a high priority for Bank Indonesia in its efforts to make the industry ready for the globalised finance. Through these efforts, Indonesian banks will become more sound, and some of them will become competitive globally.

In general it could be said that the efforts to build a safe and sound banking industry in Indonesia have shown some encouraging results. The banking industry has been successful in mobilising domestic savings to meet the bulk of our financing needs for sustainable economic development. The banking industry has been growing toward a more mature state to act as a financial intermediary in a growing economy which needs sources and technique of financing commensurate with its dynamism. Nevertheless, there are still a number of issues yet to be resolved. However, with some progress from those measures which have been introduced systematically in the recent past, a cautious optimism is in order for a positive prospect of the Indonesian banking industry.

## Review of Political Development

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### The Increasing Challenge of Regime's Legitimacy

*Sudibjo & Donni Edwin*

**T**HE development of Indonesian politics between June and July 1996 was marked by several political issues and events reflecting significantly not only the fragility of Indonesia's political life but also the increasing challenge to the legitimacy of the Indonesian government. The issues were, among others, the collusion issue in the Supreme Court (MA), the July 1st Statement and the question of the ABRI's political role (*Dwi Fungsi*) in the future, while the climax of all political events in this period was the Jakarta's July 27 street violence following the increasing tension of the internal conflict of PDI (Indonesian Democratic Party). One of the many factors that might contribute to such political development was socio-economic problems that might arise from people's dissatisfaction of certain government policies.

#### Collusion Issue in the Supreme Court

The issue was first alleged by the Deputy Chief Justice for General Crimes of the

Supreme Court (MA), Adi Andoyo that bribery is rampant in MA. It was publicly known when the *Forum Keadilan*, a bi-weekly magazine, disclosed a "secret letter" from Justice Adi Andoyo to the Central Jakarta Prosecutor Office which asked the Prosecutor to review the MA decision acquitting Ram Gulumul from charging of unlawful land procurement for the construction of the Indian Gandhi Memorial International School in Ancol, North Jakarta. The acquittal of Ram Gulumul had sparked controversy among senior judges since there was an indication that the judge presiding over the case had received a bribe of Rp. 1.4 billion.<sup>1</sup>

The issue had become public polemic. A political observer, Riswanda Imawan, blamed the political system for the rampant corruption among officials.<sup>2</sup> While a senior jurist, T. Mulya Lubis said that

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<sup>1</sup>See *Jakarta Post*, 11 April 1996.

<sup>2</sup>See *Jakarta Post*, 19 April 1996.



"Collusion is the collective sin of mentality supported by a corrupt culture and system. It is as if there exists a system of bureaucratic life or social life that snubs ethics and morality."<sup>3</sup> To overcome it, Chief Justice of MA, Soerjono set up a special task force (*Korwasus*) to investigate and verify the truth of the collusion.

It seems, however, that the task force as MA's internal mechanism to solve the problem had failed to do the job. Although the result of the investigation concluded that there was no collusion in the MA, just a procedural deviation, it left many questions unanswered such as who or what institution is to legitimise the result, what is meant by a procedural deviation, and why Justice Adi Andoyo is not permitted to look over the report of the task force. In other words one might ask how objective is the result of the investigation.

The problem became complex after Chief Justice Soerjono asked President Soeharto to dismiss Justice Adi Andoyo. More and more members of the society, ranging from prominent legal experts, students to media commentators, had voiced support to Justice Adi Andoyo. This is just an indication that many people become more skeptic, and the image of the Supreme Court as the country's highest court was downgrading. And this is a serious challenge for the actualization of the constitutional democracy of the Indonesian State.

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<sup>3</sup>See, T. Mulya Lubis, "Collusion: A Blow to the Legal System," *Jakarta Post*, 17 April 1996.

## The July 1st Statement

In July 1, 1996, a group of intellectuals, politicians and former government officials, chaired by Abdurrahman Wahid, expressed publicly their view on the current development of Indonesian politics. The view was resumed in a statement titled, "*Kembali ke Cita-Cita Luhur Bangsa*" (Back to the Nation's Noble Ideals). It stated that "We are concerned to witness the recent development which strongly tends to show that the Indonesian nation is experiencing serious problems. We are apprehensive about national unity for it is moving away from the insight of the Indonesia's nationhood, and popular sovereignty is getting away from Pancasila Democracy, and social justice is going away from the civilized life of the independent people. Even violence is spreading in the society and starting to infiltrate political life."<sup>4</sup>

The statement had gained widescale support from the public. But, there was no enthusiastic response from the government. It considered the substance of the statement as factual problems of the development process. And to overcome the problems, as Coordinating Minister for Social and Political Affairs Soesilo Soedarman put it, "We need to work hard".<sup>5</sup>

The statement might not have an effective influence that it changed immediately the current development into a qualitatively better one. But it might serve to function as a moral movement to en-

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<sup>4</sup>See *Media Indonesia*, 15 July 1996.

<sup>5</sup>*Ibid.*



force democratic principles in Indonesia's political realm, and to a certain degree, as a warning to the government that a set of quality improvements of the Indonesia's political system is necessarily required unless Indonesia is putting herself at stake. Seen from another angle, it might represent the small but growing part of the Indonesian society that is much more politically conscious about the future of the Indonesian nation state whose voice has got no proper response from the government and the political system.

### Future Political Role of ABRI

The future of ABRI's socio-political role (*Dwi Fungsi*) was once again publicly debated in a launching book seminar in Jakarta (1 June 1996): "*Dwi Fungsi ABRI, Asal-usul, Aktualisasi dan Implementasinya bagi Stabilitas Nasional*" (written by Bilveer Singh, and published by PT Gramedia Pustaka Utama, Jakarta, 1995).<sup>6</sup> There were a variety of opinions and attitudes coming from the participants of the seminar concerning ABRI's Dual Function. One asked, for instance, whether or not the young and coming generations of ABRI would have the same perception and interpretation of how to implement the Dual Function with that of the first and former generations.

Another argued that it is likely that ABRI is moving away from the substance of ABRI's doctrine. Moreover, it seems that the coming generations of ABRI might have different motivation in joining the

military than the older generations. They might see ABRI just as another choice in applying for a job, and no different from other kinds of professional occupation.

This is just another reflection of how the growing Indonesian society now is beginning to see Indonesia's traditional political institutions from new, if not modern, perspectives. Now the problem is whether these institutions could adapt themselves, and eventually response properly, to new demands of the society. Failed to grasp this problem would mean no progress being achieved, and even worst, a setback for the Indonesian nation-state.

### Preparations of the 1997 General Election

The process of Indonesia's 1997 general election consists of twelve stages starting from the registration of voters (1 May-20 June 1996) and finished with the inauguration of the elected MPs (or members of the House of Representatives) (1 October 1997). The election itself is at the ninth stage which will be held approximately between the end of May and the beginning of June 1997. The exact date of the election will be set up by a Presidential decree.<sup>7</sup>

The first, second and third stages have been completed. The first stage, however, posed a serious problem, i.e. thousands of

<sup>6</sup>See *Kompas*, 3 Juni 1996.

<sup>7</sup>See, Drs. Marsono, *Pemilihan Umum 1997 Pedoman, Peraturan dan Pelaksanaan* (Jakarta: Penerbit Jambatan, 1996).



voters had not been registered. It was not really clear why it happened. Some suspected that this was the way the government took to secure in the first place the winning of Golkar. Responding to this problem, some analysts proposed an active system of voters registration as the alternative of the current passive system of registration. The second stage that was the decision of the number of MPs, had brought no problem at all. This election would elect 425 MPs.

As for the government, the second stage which was the establishment of the electoral participants brought no problem. Three political parties would follow the election, i.e. the United Development Party (PPP), the Functional Group (Golkar), and the Indonesian Democratic Party (PDI). Some observers argued, however, that PDI should not have participated owing to the duality of the party's leadership, of which both claimed to hold the legitimacy. For this reason, a suggestion to postpone the election had been on the public discussion. However, it was clear that the government fully backed Soerjadi's camp as the legitimate PDI.

Now the election process have come to the fourth stage, i.e. the nomination of candidates from the three electoral participants. Here the dynamic focus would be within each political party. Although each party has been trying to nominate its best candidates, it seems unavoidable that at the end of the day those who were nominated would depend very much on their close relations with the party's decision makers.

Until this stage, there were no real electoral frauds. But, one should watch carefully the next stages of election process so as to bring about a better quality. In this sense, one may hope that society-initiated independent election watchdogs such as KIPP (Independent Election Monitoring Committee) would make concerted efforts in increasing better quality election.

### Internal Conflict of PDI

The internal conflict of PDI, as the smallest political party of the country, was not really a new problem. But, the recent conflict, triggered by a split in the Central Body of Party's Leadership, seems to have been very much influenced by external factors, although one may not just ignore the heterogeneity of political factions within the party as an internal factor that makes unity of the party difficult to achieve. One camp was against (Megawati's camp), and the other one was for (Fatimah Achmad's camp), a party's congress to be held. Achmad's camp seems to have been backed up by the government. Meanwhile Megawati was likely to gain support from the party's grassroot and some segments of the society which saw her as a symbol of anti-establishment.

There was actually no clear reason why the government was so hostile to Megawati. One could only suspect the probability that PDI under Megawati leadership would develop into a strong opposition party against the government. Megawati was to be toppled down.<sup>8</sup> If that is the case, to a

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<sup>8</sup>See, among others Mochtar Pabottingi, "Kege-tiran 27 Juli", *Forum Keadilan*, 26 Agustus 1996.



certain degree the government had succeeded in achieving this objective. The Congress of PDI could be held without serious challenges from those who were against it, and easily elect a new PDI leader, i.e. Soerjadi (20-22 June 1996). The credit for it should go to the military that had given all protection and security for the success of the Congress.

From the sociological point of view, however, it had failed because Megawati still claimed herself as the only legitimate leader of PDI, and got a growing number of supporters coming from not only the party's grassroot but also activists, intellectuals and several NGOs. Concurrently with the PDI Congress, held in Medan, in Jakarta thousands of people rallied to reject the Congress and to express their support for Megawati.

The Congress, as a result, did not produce any effect to the re-unification of the PDI. Conversely, it had made the internal conflict of the party much harder, more open and more difficult to resolve. The climax of this conflict could be seen in the physical clash between Soerjadi's government backed supporters and Megawati's supporters on 27 July, 1996 when Soerjadi's supporters tried violently to take over the Party's headquarter at Jalan Diponegoro, Jakarta, guarded by Megawati's supporters. A lot of people had been injured in this clash that had led to the social riot in Jakarta on that day.

The PDI affair has led people to believe that political ethics has deteriorated. The government had trampled over democracy by settling political disputes, and this

might mean that it opens the possibility for a political chaos.

### The 27 July Riot (Street Violence)

The riot followed the forced takeover of PDI headquarters which had been occupied by supporters loyal to Megawati. It took two days for the security apparatus to quash the riot. Two people died (later reported five), 26 people were injured, 34 buildings -- including seven banks -- were badly damaged and 91 vehicles destroyed when people went on the rampage on Saturday and Sunday. In fact, on Sunday afternoon, the police had arrested 206 people in connection with the unrest.<sup>9</sup>

It seems that the government did not see the riot as related to the PDI's internal conflict. As the Military reported that "the free-speech forum held at the PDI office compound this month has been used by certain parties to mobilize support to topple the government". While the government blamed the weekend riot squarely on the Democratic People's Party (PRD), an obscure group that has been behind many anti-government protests and workers' strikes over the past year. In the government's eyes, the PRD is synonymous with the old PKI, or the Indonesian Communist Party, that was banned in 1966 after its abortive coup in 1965.<sup>10</sup>

It is quite true that mass demonstration or street violence might easily instigate people to join the activity. These people could vary in their political back-

<sup>9</sup>See *Jakarta Post*, 30 July 1996.

<sup>10</sup>*Ibid.*



grounds and interests. The social riot of July 27 involved many people with various background and interests, not only political but also social and economic. Blaming only the PRD being responsible for that street violence seems to simplify, and hence does not solve, the problem.

In that sense, the riot might reflect that there is a growing number of people being dissatisfied with the current political, social and economic situation which benefit only a small group of people. Solving the problem, therefore, should not be done by blaming the PRD, accusing it being synonymous with PKI, and subsequently arresting its activists, but much more fundamental actions by narrowing gradually social-economic gaps in society which could be approached one way or another by effectively functioning the national political system.

The effects of national development reflected by, among others, the widening socio-economic gaps and changes in people's life orientation, which is much more materialistic and individualistic, have substantially stimulated people to be critical to most government policies that dissatisfied them. Therefore political, social and economic practices carried out by the state and government that are in contrast with universal values of social justice might be unpopular among, and challenged by, some growing segments of society. In effect, one could argue that the riot might be just an actual manifestation of the dissatisfaction of the society concerning such policies.

It seems, however, that the government did not justly and fairly respond to that

kind of demands. It saw the riot as a politico-ideological matter (communism) that could not be tolerated rather than a social-economic problem that should be solved by means of a justly political solution. As a result, one can see the way the government had handled the problem by military means, instead of law enforcement. For this reason, many have been doubtful that such kind of street violence would not happen again in Indonesia in the near future.

### Some Social-Economic Problems

There had been too many facts indicating that the increasing social problems are closely related with poverty and economic equality especially in the big cities of Indonesia. The July 27 riot, the high number of crimes in Jabotabek, the social violence following a set of labour strikes in Eastern Java etc., were several indicators that emphasized how serious those problem are. Although the government's economic policies have succeeded in maintaining steadily economic growth throughout the last two decades, it is most likely that they had failed to cope with the problems of social-economic equality. And even, social-economic gap is widening as urbanization and unemployment is becoming much harder to overcome.

One of many steps argued as an initial effort to overcome the social-economic gap, at least to minimise the gap between big and small businesses, was "*Gerakan Kemitraan Nasional*" (the National Partnership Movement) established in 25 May 1996. The link between these two kinds of business actors, one might hope, could



ideally develop a strong national economic structure, which in turn may create employment.

The problem is how the government could function itself as a fair mediator that facilitates equal economic access and opportunity, not only to business but also to getting capital, basic sources, and other government facilities. The Law on Small-Scale Business that has just been ratified hopefully may create a condition conducive to the realization of that purpose.

Transparency and consistency of government policies has also become a problem of significance. A couple of cases had triggered this problem, i.e. the national car policy and the lack of urea fertilizer. Public critique has been addressed to the national car policy since it was publicly announced through the Presidential Instruction (Inpres) No. 2/1996, in February 1996. The substance of the critique focused on the government decision to give license only to one company.<sup>11</sup> It was argued that this decision clearly violated the commitment of creating efficiency on the basis of fair competition among national economic actors. From this point the question of policy transparency arised.

The problem of policy transparency was clearly shown in the case of the lack of urea fertilizer. The main issue here related very much to the government decision to introduce urea tablets as a substitution of urea fertilizer.<sup>12</sup> However, farmers

rejected to use urea tablets. Aside from the fact that they were not familiar with the tablets, the price of urea tablets were very expensive. It seems that the farmers' rejection did not get a positive response from the government. But eventually the urea fertilizer disappeared from the market, and was not available in the stock. As the result, farmers of some regions of Indonesia went on strike, and some of them burnt some KUDs (Village Unit Cooperatives) of their own regions.

Although it was not the only factor causing the lack of urea fertilizer, the policy intransparancy seems to be of significance. Before the problem had arisen, it was not publicly known when the Department of Agriculture plan to substitute urea fertilizer with urea tablets, and on what legal basis a private company was appointed as the sole producer of the tablet. There was no clear answer explaining all those questions.

Considering what have been mentioned above, it might be concluded that the development of Indonesian politics during June-July 1996 indicated the increased tension in the relationship between the state or the government and society. However, it seems that there are no indications as to how the increasing political tension could be stopped. The 27 July riot might be the climax of that tension. However, that climax may only be one of some other climaxes as Indonesians are approaching the 1997 General election. And what these other climaxes are will depend on the capability and honesty of the government in answering every challenge coming from society concerning its legitimacy.

<sup>11</sup>See Faisal H. Basri, "Lomba Mobil Nasional", *Forum Keadilan*, 26 Agustus 1996.

<sup>12</sup>See *Business News*, 26 February 1996; *Media Indonesia*, 14 Juni 1996; *Kompas*, 15 Juli 1996.



# Indonesian Foreign Policy at the Advent of the 21st Century\*

*Hasjim Djalal*

## Premises

**I**T is often said that foreign policy is a reflection of domestic policy. *In reality, foreign policy is also very much influenced by the evolving regional and international situation.* This is my first premise in discussing Indonesian foreign policy as it is likely to be at the advent of the 21st century. It would be difficult to define clearly the foreign policy of Indonesia for the next 25 years, namely for the duration of the second long term Development Plan, (1) partly because of the possible changes and developments in the Indonesian domestic political life, (2) partly due to developments in the regional constellation, and (3) partly due to the constantly changing and fluid situation in international affairs. It should

be possible, however, to sketch a general vision of Indonesian foreign policy for the next few years, at least for the period covered by the next one or two Five-Year Development Plans (REPELITA) which coincides with the advent of the 21st century.

My second premise is that *the basis and principles for Indonesian foreign policy in the years ahead will remain unchanged.* The *Pancasila* will remain its ideological basis and principles. The 1945 Constitution will continue to be its constitutional and legal framework. The GBHN, determined every five years by the National Consultative Assembly (MPR), will remain its major guidelines of policy. The Five-Year Development Plans will continue to stipulate the periodic targets of development which foreign policy must continue to support. The concept of strengthening National and Regional Resilience will also continue to be the basic motivation of foreign policy. The *Wawasan*

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\* Inaugural Speech on the occasion of Hasjim Djalal's installation as Professor in International Law, presented at the Faculty of Social and Political Sciences, Padjadjaran University, Bandung, Indonesia on 24 June 1996.



*Nusantara* or the outlook of National Unity, whether in political, economic, defence, legal or territorial terms, will continue to be implemented. Finally the Independent and Active Foreign Policy, which has been a major strength of Indonesia since the early days of its independence, and which later manifested itself in the policy of Non-Alignment, will continue to be relevant, albeit with a different emphasis -- on economic development rather than political rhetoric and on the need for cooperation rather than confrontation. In short, *at the advent of the 21st century Indonesia will continue to pursue a foreign policy which is designed to protect national interests and which is based on cooperation rather than confrontation, and emphasizes economic development rather than political adventurism, and stands for regional and global reduction of tension and disarmament rather than military alliances and arms races.* How to translate these bases and principles into actual policies in a changing national, regional and international context would be one of the major challenges to Indonesian foreign policy in the future.

### **Domestic Policies and Situation**

If we look into the domestic policies and situation of Indonesia, there are a number of factors which may influence or have a bearing on the conduct of foreign policy in the future, among others:

#### ***National Development***

The National Consultative Assembly (MPR) has decreed in its 1993 Guidelines

of State Policy (GBHN) that development, particularly in the social and economic fields, remain the main preoccupation of the country for the next five years. Thus, *the foreign policy of Indonesia would have to continue to be "development-oriented" in the sense that it must continue to support the development efforts of Indonesia within the context of the Trilogy of Development.* In order to safeguard and support the development programme of the country, it is essential to maintain domestic peace and stability within the context of the Trilogy of Development. This is, however, basically not the function of foreign policy. *Yet, it is equally important to maintain and to develop a regional environment for Indonesia that would promote regional peace and stability, social and economic growth and a cooperative relationship among the regional states, so that the development effort of Indonesia could be pursued more effectively.* This is the function of foreign policy. The application of the Trilogy of Development at the regional level is necessary, because it is important to develop regional peace, stability and cooperation, strong regional economic and social growth, and strong regional cohesion and solidarity. A world that is peaceful, stable and oriented to socio-economic development would also be important to help promote national and regional peace, stability and development, thus strengthening national and regional resilience. Therefore, the efforts to promote international peace and cooperation will continue to gain Indonesian attention.



### *National Unity*

The problem of *National Unity* will remain an issue that should be carefully attended to in the years ahead. This issue has political, ethnic, religious, territorial and other aspects. Indonesia should always be careful that political differences, ethnic or religious affiliations should not cause national disunity or national disintegration since the price for such eventuality would be very expensive for the nation and the country.

A lot has been done in the last 25 years to promote the national unity and development of Indonesia. The experience of the last 25 years has taught us to strengthen the links between the domestic and foreign policies so that domestic developments would provide guidance to the implementation of foreign policy. One insight that may be derived from that experience is that the economic development of Indonesia still need to be spread over to the whole country. The central government should therefore be careful and tactful so that the phenomenon of "jealousy" on the part of the outer islands during the late 1950s in which productive provinces felt exploited by the central government in Jakarta, will not recur and endanger national unity. We should learn from the sad experience of the rebellion of a number of provinces in 1957-1960 and see to it that it is not repeated, particularly with regard to far-flung provinces like Aceh and Irian Jaya. Otherwise, this may adversely affect national unity and stability and create a domestic problem which could make it difficult to pursue an effective foreign policy.

Although issues between the central and the provincial governments are basically domestic in nature, the problems that these issues could create in the future would influence the implementation of Indonesian foreign policy.

Also, ideological conflict may be dormant at this time. Communism has long been banned in Indonesia and its immediate revival is generally regarded as improbable within the next few years. Yet, there has been some revival of communism in some other countries and this sign should not be ignored. Equally, there has been some continuing sign of religious disharmony, albeit in reduced intensity. Again, this sign should not be disregarded so that it will create domestic tension endangering national unity. *It should continue to be a mission of foreign policy to support and promote national unity, stability and development of Indonesia.*

### *Maritime Orientation*

Although the *Law of the Sea Convention* of 1982 has recognized Indonesian Archipelagic State status, thus providing a sound basis for "territorializing" national unity, its implementation in the future will be attended by many challenges and require strenuous efforts. Much has been done to promote Indonesian national interests in the Law of the Sea and maritime affairs. The application of the Archipelagic State principles and the 12 mile Territorial Sea to Indonesia has expanded Indonesian marine territory to some 5 million square kilometres. In addition, the extension of Indonesia's 200 miles



Exclusive Economic Zone (EEZ) and Continental Shelf outside the archipelagic waters and territorial sea has also extended Indonesian sovereignty over the natural resources as well as jurisdiction over the environmental protection, conduct of marine scientific research, and the establishment of artificial islands, structures and installations over an additional area of some 3 million square kilometres. The new Law of the Sea has in fact authorized Indonesia to control some 8 million square kilometres of the earth's surface. As the Minister of Research and Technology, Prof. Habibie has stated, Indonesia has now become a "maritime continent," as it has expanded to an area that is as large as a continent, although a major part of it is marine.

*Maintaining national unity, security, law enforcement and defence in the expanded marine and air space of Indonesia would be another major challenge in the years ahead.* Indonesia would have to defend and protect not only its land territory but also its expanded marine and air space including all the resources contained therein. Considering Indonesia's insular geography, this would require well-coordinated planning and development by the Armed Forces and other relevant Agencies and Departments. *The horizon and parameters of Indonesia's defence posture in the future would have to be more outward looking, namely to the open seas in the Indian Ocean, the South China Sea, the Pacific Ocean and other neighbouring seas* such as the Celebes and the Arafura Seas. Indonesia will have to decide whether it would be a "maritime power" in name only because of its vast marine ter-

ritory or whether it would be really a "maritime power" in fact, having blue water naval and air capabilities and all their appurtenances. Once Indonesia does decide to become a real "maritime power," as it should, history has indicated that it would take some 15 to 20 years at least to realize that aspiration. This perception becomes more important as 2 close and great neighbours of Indonesia, namely India and China now are moving to also become maritime power, although in their history, they had been more of continental than maritime powers.

*The utilization and the preservation of the expanded marine and air space of Indonesia, together with all its resources, will also have to be emphasized.* In fact, they should contribute more to the future political, economic and social development of Indonesia, particularly in view of declining resources on land and decrease of available land space as a result of population pressure and development. *The future development of Indonesia will have to rely more on ocean space, environment and resources.* The Indonesian "maritime continent" is ascertained to be very rich in natural resources, although perhaps no one knows exactly how rich it is. Those resources will have to be developed for the benefit of the Indonesian people as a whole, now and in the future. *How to do this properly would also be a major challenge at the advent of the 21st century.* Otherwise, again as Prof. Habibie once stated to me, the forty years or so struggle waged in the international arena by the Indonesian Government through its Law of the Sea Delegation under the leadership of Prof. Mochtar



Kusumaatmadja of this University, to gain recognition of Indonesian archipelagic and other concepts would be a waste.

*The determination of maritime boundaries would be another major concern of Indonesia's domestic and foreign policies in the years ahead, either with the neighbouring countries or with the open seas and oceans. There are so many agreements on maritime boundaries that Indonesia will have to conclude with its neighbours: these could be boundaries of the Territorial Sea, Contiguous Zone, EEZ, or Continental Shelf. In fact Indonesia has not concluded any maritime boundary with regard to its Contiguous Zone and its EEZ with any of its neighbours. Much has been done within the last 25 years on the delimitation of Territorial Seas and Continental Shelves, but a lot more needs to be done in the next 25 years with regard to all these maritime boundaries, either with the neighbouring states or to the open sea like the Indian Ocean.*

Domestically, *there are so many maritime concerns that need to be attended to.* The GBHN 1993 therefore devoted specific attention to the maritime development of Indonesia. In fact it issued a guideline that an institutional mechanism to deal with maritime affairs be developed in view of this new situation. Moreover, legislation with regard to ocean and maritime matters would also have to be reviewed and amended as necessary. No less significant is the development of law enforcement agencies and coordination of their activities and policies at seas so that law and order at sea can be maintained.

Geographically, Indonesia has been known to occupy an important position between two oceans, the Pacific and the Indian Oceans and between two continents, the Australian and the Asian land masses. Its position at the "cross-roads" has so far not given much benefit to Indonesia. In fact, this cross-roads position has made Indonesia more vulnerable. Indonesia should be able to benefit more from its geo-strategic cross-roads position in the future. I believe that *maritime issues will become more significant in Indonesian foreign policy in the future to support its national development strategy and to strengthen its national unity and security.*

In short, *there are so many issues that need to be tackled by Indonesia at the advent of the 21st century in maritime affairs and in implementing the Law of the Sea Convention* which have to be taken into account in the making of domestic policy as well as foreign policy, either bilateral, regional or international.

### ***Law and Justice***

There are a number of other domestic issues in the years ahead that could affect the implementation of foreign policy. The issue of "corruption" and "collusion" will have to be given more attention in the future as these could also affect the credibility of the government, thereby making it difficult to pursue an effective foreign policy. Equally, the issue of Law and Justice will also be raised, making it necessary to strike a balance between "procedural" and "substantive" justice. The



seeming disparity between the swift development of the Indonesian economy and the less apparent development in the area of spirituality has created an impression that Indonesian society is becoming more materialistic. This perception could also lead to public debate in the years ahead. This debate may in turn affect the direction and essence of Indonesian development strategy and subsequently the implementation of foreign policy as well, since foreign policy is itself oriented to economic development. Another domestic issue that can affect domestic stability in the future is the uneven economic development between the various regions and provinces in this sprawling archipelago.

Fortunately the Government of Indonesia is fully aware of these challenges and has taken certain preventive measures. The expeditious and effective implementation of those measures, such as the programmes to develop the largely maritime provinces of eastern Indonesia, should contribute significantly to the maintenance of national unity, growth and stability. In this context, the successful policy to develop sub-regional growth triangles, such as the Singapore-Johor-Riau (SIJORI) triangle, could also be applied to the Eastern Indonesian provinces, at least some of them, with PNG and Australia and perhaps other countries in the South West Pacific. *The foreign policy of Indonesia should continue to explore the possibilities for developing such a model of regional development.*

*The promotion of economic growth and social justice will continue to be important in the future as a key element in the Tri-*

logy of Development. The whole world has acknowledged Indonesia as an "economic miracle" for being able to sustain consistently high growth and raising the standard of living of its people. Partly due to this "economic miracle" and partly due to the stability of its domestic environment, Indonesia has been able to consistently draw the interest of foreign investors and foreign governments and financial institutions. At the same time, Indonesia is also attending to the regional and global environments as domestic social and economic developments have become more sensitive to the influence of regional and global developments.

The per capita income of Indonesians has multiplied several times during the last two decades. This is something that Indonesians can be proud of. Yet the distribution of the national income still needs a lot of attention since some 14 per cent or about 25 million Indonesians are still living below the poverty line. *How to position Indonesia in the regional and global economic competition as well as how to spread the national income more equitably will also be a major challenge in the future that could affect the conduct of Indonesian foreign policy.*

### ***Democratization and Human Rights***

*The problem of democratization and human rights will also become more prominent and their impact on foreign policy cannot be ignored. While Indonesia maintains a certain kind of democracy based on its own experience and cultural background, the democratization process should*



be unrelentingly pursued in order to give it more "substance" and "form". Too quick and abrupt democratization as in the former Soviet Union can become "uncontrollable" or "unmanageable" and in the end may bring about the disintegration of the whole system. Yet, without the proper "substance" and "form," a slow democratization process could also create more problems. The experience of other countries in this regard should be carefully studied so that precious lessons could be learned from their experiences. Equally, human rights issues have been globalized and therefore it would be difficult to insulate Indonesia from these concerns. Indonesia is rightly and increasingly aware of the globalization process, both in the economic and commercial sphere and in political and human rights matters. The issue of democratization and human rights, including in East Timor and Irian Jaya will continue to influence the implementation of Indonesian foreign policy in the future. How to deal with these matters in a balanced manner will be another challenge that requires political wisdom. Any retrogression in the process of democratization and promotion of human rights will make it more difficult for foreign policy to maneuver. In this context, it is hoped that the solution of the East Timor issues in international fora will be finalized in the near future.

### *The Role of the Armed Forces*

Within the last few years, *the role of the Armed Forces* has also been a matter of debate. I feel that the basic concept of "dwi fungsi" has not been seriously challenged and therefore I am confident that it will continue to be significant in the

future development of Indonesian domestic and foreign policy. Equally, the "partnership" between the Armed Forces and Golkar will also be important in the foreseeable future, although the Armed Forces will strive to stand above all the political forces. Recent indications and trends in this regard should be carefully studied and observed, especially the relationship between socio-economic development and stability and the role of the Armed Forces. It has been surmised that as greater stability and socio-economic development are achieved, the less prominent would be the role of the Armed Forces in socio-political functions, in "stabilizing and dynamizing" society. How to develop a more appropriate role for the Armed Forces in the changing domestic, regional and international situations in the future would be a challenge to the think tank of the Armed Forces. On this issue, the problem of perception is sometimes as important as the reality. The reality is that the Armed Forces in their long history of struggle for national independence, unity and development, has always defended the interests of the country and the people. Yet, different perceptions seem to have surfaced lately. Some Armed Forces leaders have been quoted as saying that there are indications of well-planned efforts to "corner" the Armed Forces. If this is true, it is cause for concern. It should be an immediate task of the Armed Forces to erase, carefully and judiciously, such a perception among the people, no matter how small or insignificant it may appear at this time. They should continue to take every measure to safeguard their role and reputation as loyal defenders of the nation, the country and the people.



Whatever the role of the Armed Forces in the future domestic political development of Indonesia, I believe that *the role of the Armed Forces in protecting national unity and development and in defending the much increased territorial and jurisdictional zones and resources of Indonesia, especially its marine and air space, needs to be strengthened*. This will influence the implementation of Indonesian foreign policy.

### ***Environmental Issues***

*Environmental protection has also become a national, regional and global issue* of late. Again, Indonesia, rightly, has been paying significant attention to this problem. That environmental issues, whether domestic, regional or international, affect economic development and political stability has been demonstrated by recent events in Indonesia, such as the furor over the construction of a dam in Central Java (Kedung Ombo) and the exploitation of natural resources in Irian Jaya (Freeport). Trans-boundary environmental problems have also developed recently, due management of forest or forest fires, improper coastal zone management, and pollution resulting from the use and exploitation of maritime spaces and resources particularly in the South China Sea and in the Straits of Malacca and Singapore.

The management of these predominantly domestic issues will affect the implementation of Indonesian foreign policy in the future, either globally or regionally. In short, *coordination between domestic and foreign policies on these matters will have to be continued and strengthened in the future*.

### **Regional Context**

In a regional context Indonesian foreign policies should strive to protect Indonesian national interest, especially its national development plans, either long term (PJP II) or short term (Repelita). Indonesia should be able to take advantage of the present and rare mood in the region for peace, economic development and regional cooperation. The situation can be pictured as a series of *geo-political and strategic concentric circles*. There are actually three theatres in which Indonesian foreign policy is operating or will have to operate.

#### ***East and Southeast of Indonesia***

The *first* is toward the East and Southeast of Indonesia, basically toward Papua New Guinea (PNG), Australia and other South Pacific countries. With PNG, Indonesia has a very long and porous land boundary and in which some anti-Indonesian separatist force, the OPM, still hides. Moreover, the vague notion of greater Melanesian solidarity and brotherhood in areas east of Indonesia toward the South Pacific needs to be continuously and carefully watched so that its negative impact on Indonesian national unity, especially in Irian Jaya, could be averted and its positive aspects promoted. A similar situation also occurs in relation to East Timor, although the genesis of that problem may be different. Some people would assert that these parts of Indonesia represent its "soft under-belly." Indonesia, particularly the MPR, has been for many years aware of this problem and therefore has repeatedly issued guidelines in



the GBHN on this matter, the latest one in 1988. In response, the Government of Indonesia has concluded a Treaty of Mutual Respect, Friendship and Cooperation with Papua New Guinea (PNG) in 1986 and thereby established a firm basis for a peaceful, stable and cooperative relations with that friendly neighbouring country. PNG has now become an observer in *ASEAN*, and a member of *APEC* and the *ARF*. It is hoped that the consolidation of Indonesia's good relations with Papua New Guinea will augur well for the development of similarly constructive relations with the South Pacific countries, including Australia, New Zealand and the Melanesian and Polynesian countries beyond them.

In fact, there are many similarities and common interests between Indonesia and the South Pacific countries. Both Indonesia and the South Pacific countries are insular, and in some cases archipelagic, countries. In fact, Indonesia and the South Pacific countries, particularly Fiji and Papua New Guinea, have cooperated very closely in many Law of the Sea issues, especially in formulating the principles of the archipelagic states and the interests of coastal countries in oceans resources. Recently, Indonesia and these countries worked together drafting the implementing Agreement of the Law of the Sea Convention on High Sea Fisheries. Recently, Indonesia and the South Pacific countries together developed management studies for the highly migratory fish species such as tuna within the scope of the West Pacific Fisheries Consultative Committee (WPFCC) or within other cooperative activities.

*Indonesian foreign policy in the future should continue to promote and con-*

*solidate relations with the countries of the South Pacific, especially since Indonesia has land and maritime borders with one of them, namely PNG, and maritime boundaries with Australia in the Arafura and Timor Seas.*

In fact, our relations with PNG served as the model for our efforts to develop relations with Australia in the late 1980s. In 1987 I visited the South Pacific countries, including Australia, to find out whether Indonesia could participate as an Observer in the South Pacific Forum, in the same way that the PNG regularly participates in the ASEAN Post Ministerial meetings as Observer, and whether Australia was willing to conclude an agreement or treaty with Indonesia similar to the Indonesian-PNG Treaty of Mutual Respect, Friendship and Cooperation. I was surprised and disappointed to discover at that time that it was not regarded appropriate for Indonesia to participate as observer in the South Pacific Forum and that Australia was not interested in concluding such a treaty with Indonesia. As far as I could remember, Australian officials at that time said that developing the substance of the relations between the two countries was more important than developing its form. I am therefore happy that many years later Indonesia and Australia were able to sign a treaty on maintaining consultation on security issues. I hope that this agreement would lead to further development of cooperative relations between Indonesia and Australia and that this agreement will become a component of a Treaty of Mutual Respect, Friendship and Cooperation between Indonesia and Australia and



other countries in the South Pacific in the future. It is to me regrettable and enigmatic that the MPR in its GBHN of 1993 no longer mentioned the guidelines for the Indonesian foreign policy toward the South West Pacific as it did in previous GBHNs, but simply subsumed it under the rubric "Asia and the Pacific".

### *North of Indonesia*

*Second, the relations between Indonesia and its neighbours to the North have always been and will continue to be a major component of Indonesian foreign policy.* In fact, throughout its history, Indonesia has always been visited from the north in the form of either peaceful economic and cultural contact or hostile invasion. The Hindus came to Indonesia around the third century from the North, so did the Buddhists around the eighth century. The Arabs came around the thirteenth century, using Aceh as a base for engaging in trade and spreading religion throughout the archipelago. The Europeans, particularly the Portuguese and the Dutch, generally came to Indonesia through Malacca. In fact, the Japanese also came during the second world war through the Malaysian peninsula and the South China Sea, defeating the Dutch navy in the Java Sea.

I am fully aware of this historical lesson, particularly since the centres of Indonesian population, economic activities and geographical land gravity lies in the Western part of Indonesia. Looking to the North, it is obvious that the cornerstone of Indonesian foreign policy cannot be other than the maintenance and develop-

ment of peace, stability and cooperation with its immediate neighbours to the North either bilaterally or regionally. That is why it is important to Indonesia that ASEAN solidarity, cohesiveness and cooperation be developed and strengthened. Indeed, *ASEAN will continue to be a "cornerstone" of Indonesian Foreign Policy.* History has shown that when this cohesiveness, solidarity and cooperation are lacking, there is a proportionate increase in tension and confrontation in the region to the benefit of no one. That is why Indonesia has to continuously and constructively engage the countries of Indochina bilaterally or through ASEAN. In this light, *the realization of the envisioned ASEAN-Ten which embraces all the Southeast Asian countries perhaps proceeded by ASEAN-Nine (before Myanmar can join in) would constitute a major breakthrough.*

The ASEAN-Ten should not be viewed as a way of establishing a bloc in East Asia. Like the ASEAN-Five, ASEAN-Six, or ASEAN-Seven, the ASEAN-Ten should strive to consolidate and strengthen the solidarity, cohesiveness and cooperation among themselves while at the same time building constructive relations with the rest of the world, whether near or far from ASEAN. The development of a dialogue process with non-ASEAN countries would go a long way in projecting ASEAN's outward-looking orientation and the fact that it is not an exclusive, inward-looking bloc of states.

Beyond ASEAN and Southeast Asia, *another dimension of Indonesian foreign policy has to be vigilantly addressed: the issue of the South China Sea.* Recent de-



velopments in the Law of the Sea have added further significance to this dimension. For many years, I have been aware of this issue. In fact, since the clash between China and Vietnam in the Spratlys in 1988, I have become more concerned with this problem and have written an article on this in *The Indonesian Quarterly* in July 1989. At that time, I was already perplexed with the so-called nine broken, dotted, discontinued and undefined lines on the Chinese map that seemed to enclose practically all of the South China Sea. Some writers later referred to it as the "Chinese tongue" or "Dragon tongue." Since that time I had asked the meaning of those lines. I have never obtained a satisfactory reply. The issues pertaining to the South China Sea have lately gained in significance, particularly in view of the possible but as yet unproved existence of oil and gas reserves in the Spratly islands group, the importance of the islands group as a fish spawning ground, and its strategic location which can control shipping, communication and aviation between the Middle East, Southeast Asia, and East Asia as well as among the South China Sea states themselves. In addition, conflicting territorial claims in the area, either bilateral or multilateral, have complicated the problems especially after China recently has taken a more "assertive" steps in the South China Sea. Indonesia itself is not a claimant to any of the islands or rocks in the Spratly group, but the Chinese undefined dotted lines do pass through parts of Indonesia's Exclusive Economic Zone and Continental Shelf. No one knows exactly what was the legal basis and intention of China in drawing those broken lines.

The significance of the South China Sea to Indonesia can hardly be overemphasized. In the first place, Indonesia is pursuing a development programme in its continental shelf north and east of Natuna island where there are large natural gas reserves. Indonesia and Malaysia have had a sea-bed boundary agreement west and east of Natuna since 1969. The enormous resources of this area will be developed with an investment of more than US\$30 billion. This investment must be protected. This is one of the reasons why Indonesia would not like to see any disruption of peace and stability in the much-disputed area around the Spratly islands because such a disruption could affect the stability and the safety of development in the area, not only for Indonesia but also for all the other countries of the region. Secondly, the South China Sea is a major trade route for Indonesia toward major East Asian cities. Any disruption to communication, shipping and navigation in the area and the tension that would result from it would adversely affect Indonesian interests and regional stability.

It is in this context that Indonesia has since 1990 undertaken to organize informal Workshops to manage the potential conflicts in the South China Sea. *It is important that this initiative, which has been lauded throughout the world as positive example of preventive diplomacy, should be pursued and intensified in the future.*

Perhaps one of the major problems for the Indonesian foreign policy in the future will be *how Indonesia will position itself*



*in the changing equation of powers and their relationship in the area around Indonesia*, particularly in Southeast Asia, the South China Sea, the West Pacific, East Asia and the Indian Ocean. Since the end of the Cold War and the break-up of the Soviet Union, Russia does not seem to be playing a major role in the power equation in the area around Indonesia. This situation may however change in the future once Russia is out of the economic doldrums. There are indications that China and Russia may have already formed or are developing a "strategic partnership" for the 21st century and that China may have also formulated policies to safeguard its relations with the countries in Central Asia, thus safe-guarding its rear should it face an undesirable situation later in its Western and South Western flanks. The United States will remain a global power in the foreseeable future and perhaps will be the only power that can counterbalance any emerging military power in the West Pacific, the South China Sea and the Indian Ocean. Japan, although capable of maintaining its interests in the Japan Sea, East China Sea and South China Sea, appears content to continue depending on the US umbrella. The reluctance of Japan to fully arm itself and expand its defence perimeter beyond 1,000 miles to Southeast Asia, for many and obvious reasons, seems likely to continue for the next few years at least. South Korea is getting stronger economically and therefore can play bigger economic and trade role in the region, although its attention would be drawn to the situation in the Korean Peninsula. Although the European powers can play a significant role in the economic development of Indonesia and the countries of

the region, they are no longer capable of playing major military roles in the area. India is another major power in Asia, but does not seem to have any plan to project its military power beyond the Indian Ocean, although it clearly wishes to expand its economic and trade relations with East and Southeast Asia in the context of its new "look East" foreign policy.

*The rise of China is therefore one of the most interesting developments to watch in this region within the next few years.* Since China professed the policy of the Four Modernizations in 1978, including modernization in industry and defence, it has become obvious that China is becoming a maritime as well as a continental power within the next few years, if it is not already one. Several factors are interesting in this regard such as: (1) its plan to buy a large number of long range MIG aircraft, tens of submarines and even aircraft carriers strengthen this impression; (2) its recent difficult relations with the United States, and to some extent with Japan as if to reflect a new confrontation in this region and the possibility that it will play a major role on the Korean Peninsula thus strengthen its political weight; (4) its policy on the situation across the Taiwan Straits recently indicates its willingness to use force, which does not bring confidence to its neighbour; (5) its increasingly "assertive" policy in the South China Sea, and (6) its nuclear policy which continue to conduct nuclear weapon testing. All this is worth careful attention of its neighbours, especially the ASEAN countries. It is worth noting that while many countries, including the United States and



the Southeast Asian countries, are pursuing a policy of "constructive engagement" with China yet, it appears that China does not believe them or some of them. Equally, while China professes to pursue a policy of "peaceful cooperation" with the countries around it and beyond, some suspicion remains on China's intentions, due to various historical reasons. *How Indonesia and the other ASEAN and Southeast Asian countries will manage their future relations with the emerging Power that is China as well as other Powers in the region, particularly the United States, will be a major foreign policy concern in this region in the years ahead.*

### *West of Indonesia*

*Third*, toward the west, Indonesia will have to pay more attention to the Indian Ocean and its surrounding countries. Although none of the countries in the Indian Ocean region at this time poses any problem or danger to Indonesia, yet the prospect for developing an Indian Ocean policy of cooperation within the context of preventive diplomacy should not be underrated. Indonesia has a very long coast line on the Indian ocean. It has a very large Exclusive Economic Zone and Continental Shelf in the ocean. Many of its islands, including the two largest, Sumatra and Java, on which live the majority of its population, border the Indian ocean. The ocean offers enormous potential resources for Indonesian economic development, particularly fisheries and mineral resources. Lately, Indonesia has taken an active interest in the development of cooperative efforts in the Indian Ocean,

involving countries of Africa, Asian and Australia, be it governmental or otherwise. *It is essential that Indonesia should participate actively in intensifying these efforts in the Indian Ocean in the years ahead.*

Every one knows that Indonesia is an archipelagic country comprising thousands of islands and surrounded by seas and oceans. It has pursued constructive relations with the countries around it for many years. It should now define and develop its maritime policy towards the seas and oceans surrounding it. *The maritime component of Indonesian domestic and foreign policies should be given greater and closer attention in the future in order to better safeguard Indonesian national unity and development as well as regional cohesiveness and co-operation.*

### **Global Context**

While Indonesia's most vital interests lie within the three geo-strategic concentric circles of its immediate foreign policy theatre, this does not mean that the rest of the world is not important to Indonesia. In fact, through the years, the scope of the geo-strategic concentric circles continue to expand as a result of globalization and technological advances in communication. Moreover, the interests of Indonesia is more than simply in geo-strategic concentric circles. In fact, the circles could change depending on the perspective -- economic, cultural or political. From the economic point of view, the development of fruitful relations with countries with which



Indonesia maintains strong economic and trade relations would be essential, particularly with major industrial and industrializing countries, particularly those in North America, West Pacific and Europe, the three "engines" of global economic and trade developments at this time. While Indonesian economic and trade relations with the West Pacific countries have shown significant progress, *economic and trade relations with Europe and North America also have great potential for Indonesia. Here lies the significance of Indonesia's initiatives and participation in APEC, ASEM and the ARF.*

Equally, from the cultural and economic points of view, the *relations between Indonesia and the Middle Eastern and South Asian countries would be very significant.* This is a compelling reason for Indonesia's continued active and constructive participation in the activities of the Organization of the Islamic Conference and other similar fora and its efforts to expand economic and trade relations with these countries. From the global political and economic points of view, the strengthening of Indonesian relations with the Non-Aligned and other developing countries should not be underestimated either, just as Indonesia's role in the United Nations remain essential. In fact, it can be expected that *in the future, Indonesia will even be more closely and intensively engaged with the countries in the various "concentric circles," be it geo-political and strategic, or economic and trade as well as socio-cultural.* One of the basic tenets of the Indonesian foreign policy as stipulated in the Preamble of the 1945 Constitution, namely to take active part in

implementing a world order based on independence, lasting peace and social justice, shall continue to be an important element in the conduct of the Indonesian global foreign policy in the coming years.

At the end of Cold War, there have been quite a lot of discussions in recent years with regard to the possible clash between the western and eastern cultures that may also influence the conduct of foreign policies. In fact, as the East-Asian economies are growing stronger and the Western economies seems to experience some problems, many people are beginning to relate this phenomenon to differing cultural outlook, while others increasingly criticize the West for its double standard in dealing with some of the emerging countries and economies in East Asia. Some people even talk already of the possible clash between "Islamic fundamentalism" and the Western Judeo-Christian culture. It is important for Indonesian foreign policy in the years to come to continue to develop the prospect for cooperation rather than confrontation in such a seemingly "antagonistic" world views. I believe that the general trends for regional, global, or specific cooperation will continue in years ahead and that Indonesia should continue to nurture and participate actively in the developing such trends.

### Postscript

At the advent of the 21st century Indonesian foreign policy will face various challenges and opportunities. It is therefore important that Indonesia, particularly its Department of Foreign Affairs, is pre-



pared and ready to face all those challenges and opportunities. As demanded by the GBHN 1993 (Point 2.d of "external relations"), it should be able to anticipate future events and developments as accurately as possible, either nationally, regionally or globally, so that it can devise the most appropriate policies to deal with them. Indonesian diplomats should be prepared for this enormous tasks. *It may also*

*be necessary for the Government of Indonesia, particularly the Department of Foreign Affairs, to enhance and improve its human resources, improve its recruitment system and its career development planning as well as its facilities, management and institutional mechanisms, so that these would be responsive to future demands of diplomacy and foreign policy at the advent of the 21st century.*



# Coastal Management in an Enclosed Sea Environment: An Indonesian Case in the Preservation of Coastal Ecosystem

*R.M. Sunardi*

**T**HE traditional use of the sea by man, namely, as a means of transportation, as a source of natural wealth, and as a medium for national defence, has increasingly become complex. The rapid advancement of technology, population explosion, and economic opportunities provided by the sea, have all combined resulted in the sharp increase in the rate of the depletion of marine resources, renewable as well as non-renewable, all over the world.

The use of modern technology in fishing has drained various species of commercial value. In fact, there remain only a few untouched species, and even these have to survive in a miserable habitat. What is likely to happen in the absence of immediate intervention would be an economic and population collapse.

Indeed, even in the traditional form of fishing, various violations of law have been perpetrated with dire consequences, such as the illegal use of depth charges and

chemical solution along the coasts or in shallow waters. This has not only damaged habitat but also disturbed the ecosystem equilibrium. The same is true with the clearance of mangroves and coral reefs on various pretexts.

Surely, the gravest impact on environment would happen on enclosed seas bordering on relatively dense human settlements, because the physical characteristics of sea water in a closed environment are such that its capacity to dissolve pollutants is lower than that of large bodies of sea water. Furthermore, a densely populated settlement area is itself a source of damage to the environment. A case in point is the Java Sea. Coastal abrasion along the Java Sea is man-made, for the sea itself is generally calm throughout the year.

The fulfillment of the needs of daily life does not go hand in hand with the preservation of coastal ecosystem or coastal ecosystem equilibrium. Therefore, in order to ensure the continued benefit we enjoy



from the sea, a pragmatic trade-off is to be found, especially with respect to enclosed seas.

## Challenges to Coastal Environment

Many theories of economic development that promise the preservation of environment have been put forward. In practice, however, the desire to maintain economic growth is not in keeping with the need for the preservation of environment. In developing countries, this has resulted in a conflict of interests, with the economic interest getting the upper hand.

The challenge to the sea environment in general, and in particular to the sea eco-system, may, among others, take the following forms: (a) A qualitative as well as quantitative damage of habitat along the coast such as mangroves, coral reefs, and sea weeds; (b) Damage of bio-diversity, marked by the disappearance of some species; (c) Abrasion of the coast as a result of the disappearance of natural coastal protection, fish farming and uncontrollable prawn hatchery along the coast; and (d) The pollution of sea water because of industrial waste and the use of pesticide in farming on land near the coast, and pollution from the sea from various causes and activities.

Furthermore, in coastal areas along enclosed seas a certain degree of siltation takes place. This can clearly be seen on the coast of the Java Sea because of the great number of rivers emptying into that sea.

Because of the high rate of siltation, the coastal line of Java particularly conti-

nues to extend further into the sea. And this, in turn, causes an increasing damage to the coast because of expanding fish farming and prawn hatchery. Siltation is also brought about by forest devastation in the area along the upper course of the river. Thus efforts at the preservation of environment on coastal areas are also affected by similar efforts on land.

For an effective management of existing challenges, it is necessary to look into their sources. *First*, damage to coastal environment caused by sea-based challenges may take the following forms:

- Off-shore mining, which in the Java sea generally extends to not more than 20 miles off the coast, causes pollution as a result of a leak of mining materials mostly hydrocarbon from the sea. With a platform not very far off shore, the wind and sea current will rapidly carry pollution to the coast. In addition, there is oil spills coming from machinery on the platform as well as from ships servicing the platform.
- Accidents at sea, such as collision between ships, almost certainly have harmful consequences. Therefore, efforts to avoid accidents at sea will be beneficial for the preservation of coastal eco-system in view of the increasing tonnage of ships, particularly oil tankers. When the Showa Maru tanker ran aground near the Philips strait, the oil that spilled caused damage to habitat not only on the coastal areas around the nearby islands, but also in the coastal area of Sumatra. This should serve as an example of how vulnerable enclosed sea environment can be. Apart from acci-



dents, pollution can also be due to negligence on the part of a ship's crew, in that they tend to be so careless as intentionally disposing waste in a forbidden area. The worst pollutant in this case is oil from the engines of ships.

- Over-fishing by both traditional and modern fisheries resulting in economic and population collapses. At present many parts of Indonesia's archipelagic waters suffer from this. The worst case is in the Java Sea, so that the Javanese traditional fishermen have to catch fish in the Natuna waters. The case of the Java Sea is characteristic, because over-fishing is combined with various kinds of pollution from land and sea so that not only various species of fish and marine mammals are extinct, but also various kinds of bird can rarely be seen along the coast.
- Illegal methods of fishing, namely, by using depth charges and the application of chemical solvent, damage not only habitat but also bio-diversity. Particularly, the use of chemical liquid to catch certain species of fish of high commercial value contributes to the damage of coral reefs. The illegal method of fishing is employed secretly, and because altogether Indonesia has a coast of more or less 80,000 km long, the possibility that such activities escape from detection by law-enforcing agents is great.

*Second*, the damage of coastal ecosystem caused by land-based challenges are, among others:

- Industrial waste coming from various industrial plants situated very close to

the coast or industries that dispose of their waste into the river without going through the process regulated by the government. Although various regulations have been enacted on the prevention of damage to the environment, various constraints exist in the enforcement of such regulations. As a result, the quality of water is becoming worse not only for the society but also for the sea ecosystem.

- An excessive use of pesticide for agriculture particularly in the rice fields also contributes to the decrease in the quality of river water that flows into the sea. This combines in a damaging way with industrial waste. There is also illegal use of ZA fertilizer in fish farming for certain kinds of fish, which aims at their rapid breeding. This is practiced mostly on the north eastern part of the Java Sea.
- The clearing of mangrove trees for firewood, building construction and woodchips that have export value beyond consideration of conservation is done not only along the coast of Java, but also of Sumatra, Bali, South-east Indonesia, Kalimantan, Sulawesi, Maluku and Irian Jaya.
- The destruction of coral reefs for industrial purposes, such as construction and garment industries has created a very critical condition for coral reefs.
- The growth of tourism also contributes to the damage of ecosystem unless accompanied by clear zoning.

*Third*, the ineffective preservation of coastal ecosystem relates to the problem of governance:



- A lack of clarity in the division of powers between the central government and provincial or local governments in Indonesia with respect to coastal management, particularly as regards zoning for activities with negative impacts on coastal ecosystem, plays a significant part in the damage of coastal ecosystem. Economic interests relating to industry, tourism, and fish farming ought to be managed in such a way as to give room for other interests. Policy on zoning should be observed. The problem is to what extent the authority of local government should apply. Various scientific as well as governmental efforts come to the conclusion that an area of approximately 50 metres wide along the coast of the Java Sea should be allocated specifically for a green belt of mangrove trees, whereas for the outer islands it should be approximately 200 metres. In reality, this only applies to conservation coastal areas and national parks.
- There are still constraints to law enforcement due to a lack of legal and legislative infrastructure, a lack of manpower for in the field supervision and law enforcement, a lack of equipment for early detection of pollution, and limited operational funds.

### The Problem of Mangrove Trees

The preservation of mangrove ecosystem in general and that of bio-diversity in particular is a serious problem in Indonesia. The damage of mangrove forest has a negative impact not only on various

species living in the water underneath but also on the breeding habitat of primates and different species of sea birds. Furthermore, the damage of mangrove forest that results in bare seashores would accelerate coastal abrasion. A number of fishing villages in Indonesia have had to be moved because of severe coastal abrasion.

The condition of mangrove forest in several provinces, particularly in Java, Aceh and South Sulawesi is critical. In 1982, the total amount of mangrove forests was 5,209,543 ha. But in 1990 it decreased to only 2,500,000 ha. Some of the causes are as follows:

- Conservation areas of mangrove forest have gradually become fish farms, residential areas, industrial complexes, and tourist resorts. This change seems to be beyond control from the macro point of view. One of the reasons is the ambiguity of zoning policy.
- The clearing of mangrove forest for the daily necessities of the people such as firewood and construction materials, and for basic commodities for industry. Exports of woodchips made from mangrove trees have indicated and increase.
- Pollution from industrial waste and residues of oil from the sea as well as pollution from offshore platform.
- Siltation resulting from mismanagement over activities in the upper course of the river, particularly the clearing of forests on the mountainous areas.
- The decrease in the flow of fresh water into areas of mangrove ecosystem due



Table 1

## MANGROVE FOREST AREAS IN INDONESIA (IN HECTAR)

A	B	C	D	E
Area	1982	1987	1993	Percentage (D/B) x 100
<b>1. SUMATERA</b>				
- Aceh	54,335.00	55,000.00	20,000.00	36.81
- North Sumatera	60,000.00	60,000.00	30,750.00	51.25
- West Sumatera	3,000.00		1,800.00	60
- Riau	276,000.00	470,000.00	184,400.00	66.81
- Jambi	65,000.00	50,000.00	4,050.00	6.23
- South Sumatera	240,700.00	110,000.00	231,025.00	95.98
- Bengkulu	2,100.00	20,000.00	2,000.00	95.24
- Lampung	17,000.00	3,000.00	11,000.00	64.71
<b>2. JAVA</b>				
- West Java	28,513.16	5,700.00	5,000.00	17.54
- Central Java	18,700.00	1,000.00	13,577.00	72.60
- East Java	7,750.00	500.00	500.00	6.45
- Jakarta	95.00			
<b>3. BALI</b>	1,950.00	500.00	500.00	25.64
<b>4. LESSER SUNDA ISLANDS</b>				
- West Sunda Islands	6,700.00		4,500.00	67.16
- East Sunda Islands	20,700.00		20,700.00	100.00
<b>5. EAST TIMOR</b>	100.00		100.00	100.00
<b>6. KALIMANTAN</b>				
- West Kalimantan	205,400.00	60,000.00	40,000.00	19.47
- Central Kalimantan	28,700.00	20,000.00	20,000.00	69.69
- South Kalimantan	112,300.00	90,000.00	66,500.00	59.22
- East Kalimantan	667,800.00	750,000.00	266,800.00	39.95
<b>7. SULAWESI</b>				
- North Sulawesi	27,300.00	10,000.00	4,833.00	17.70
- Central Sulawesi	42,200.00		17,000.00	40.28
- South Sulawesi	67,200.00	55,000.00	34,000.00	50.60
- Southeast Sulawesi	100,900.00	25,000.00	29,000.00	28.74
<b>8. MALUKU</b>	212,100.00	46,500.00	100,000.00	47.15
<b>9. IRIAN JAYA</b>	2,943,000.00	1,382,000.00	1,382,000.00	46.96
<b>TOTAL</b>	5,209,543.16	3,214,200.00	2,490,035.00	47.92



to irrigation projects that are concerned only with the interest of the land.

- Projects of tourist industrial development or housing areas that can reduce water circulation in the mangrove forest as well as the rise and fall of tides.

In Indonesia there are different kinds of mangrove trees. The composition of mangrove trees varies from one area to another, depending on the condition of coastal physiography and the dynamics of tides, so that in one area may be found a wider zone of mangroves than in another. In Indonesia there are to be found mangrove forest from only of about 50 metres to several kilometres wide, depending on the form and the slope of the coast, and on the conditions of the bottom of the sea. In general, the growth and spread of mangrove trees depend on three factors, namely, the conditions and type of the soil, salinity, depth and resilience against currents and waves.

The mangrove trees constitute a habitat for various kinds of wild animals such as primates, reptiles and birds. Mangrove forest in one of the components of estuarian ecosystem which is very important for sea birds, including those that migrate. It is among the mangroves that the process of regeneration takes place. At the estuary of the river *Cimanuk* in West Java, for instance, there are 12 kinds of migrating bird.

The kind of primates that is often found in the mangrove forest in Java and Sumatra is the long-tailed monkey (*Macaca Fascicularis*), whereas in Kalimantan the long-tailed monkey of the

*Nasalis Larvatus* kind. These two kinds have been declared rare and are under protection.

## The Problem of Coral Reefs

The condition of the coral reef ecosystem in Indonesia is a cause for concern, for it has reached 14 per cent in a critical condition, 46 per cent seriously and moderately damaged, 33 per cent in good condition and only seven per cent in very good condition. Various challenges to the coral ecosystem are, among others, as follows:

- Exploration of corals for building materials, road construction in areas where stones are hard to find, garment industries, ornaments, etc.
- Fishing by depth charger, chemical solution, and equipment for catching a certain type of fish, whose operation may damage coral reefs.
- Pollution of water around good coral reefs as a result of land-based and sea-based activities.
- Increase in polluted water because of siltation around a ridge of rock as a result of land or coastal erosion as well as mining around a ridge of rock.
- Exploitation of various species of fish with economic value that live around a ridge of rock, particularly ornamental fish.
- Marine tourist activities that are focused on diving, since Indonesia has various fields of superiority in terms of natural beauty.



Table 2

CORAL REEFS CONDITION IN INDONESIA

Location	Number of Station	Very Good	Good	Mildly Damaged	Severely Damaged	%
Western Indonesia						
1. Sunda Strait	16	0	1	6	9	56.25
2. Seribu Islands	40	0	4	8	28	70.00
3. Belitung Islands	7	0	2	3	2	28.57
4. Natuna Islands	11	2	5	3	1	9.09
5. Nusakambangan Islands	3	0	0	1	2	66.67
6. Karimun Java Islands	16	2	4	6	4	25.00
7. Bali	14	0	0	2	12	85.71
8. Kangean Islands	7	0	4	3	0	0.00
Central Indonesia						
9. West Lombok	12	2	2	4	4	33.33
10. Sumbawa Islands	3	0	3	0	0	0.00
11. Komodo Islands	6	2	2	1	1	16.67
12. Selayar Islands	5	0	2	3	0	0.00
13. Taka Bone Rate	5	1	0	4	0	0.00
14. Tukang Besi Island	5	0	0	3	2	40.00
15. Bangai Island	14	1	6	5	2	14.29
16. Tiga Island	6	1	3	2	0	0.00
17. Sangkarang Island	32	0	0	20	12	37.50
Eastern Indonesia						
18. Tabeto Islands	14	0	4	2	8	57.14
19. Morotai Islands	14	0	0	1	13	92.86
20. Ambon Bay	10	1	5	2	2	20.00
21. West Seram	4	0	3	1	0	0.00
22. Banda Islands	7	1	5	1	0	0.00
23. Kai Island	17	2	3	7	5	29.41
24. Padaido Islands	13	0	3	6	4	30.77
		281	15	61	94	111
			5.3	21.7	33.5	39.5

Legend :

- Very good : 76 - 100%
- Good : 51 - 75%
- Mildly damaged : 26 - 50%
- Severely damaged : 0 - 25%



Conservation and management of coral ecosystem should soon be attempted in view of the pressures from land-based and sea-based activities. An extensive damage of coral ecosystem may adversely affect the livelihood of traditional fishermen and the coastal community. From a wider perspective, such a damage may hinder efforts at the preservation of biodiversity. Since the physical condition of water in an enclosed sea such as the Java Sea is more delicate than that of an open sea, such efforts need greater caution, sanctioned by law with firm enforcement.

As in the case of the conservation of mangrove ecosystem, that of coral ecosystem is disturbed not only by sea-based activities but also by land-based activities. Even the clearing of forests on the mountains will have an effect on rock and mangrove ecosystems in that it increases the degree of siltation on coastal areas. A comprehensive view is therefore necessary. A narrow and sectoral vision will bring no optimum results.

### International Cooperation

The preservation of maritime and marine environments, including coastal zone environment, is the responsibility of the government and the people of every littoral state. But because of the indivisibility of the sea, a bad environment on the sea area of one littoral state will adversely impact on that of another. This impact across nations is due to sea currents that can carry pollution everywhere. It is also due to the fact that migratory species

breed in one place and then move from one place to another. A certain species of tuna fish, for instance, breed in the Spratly area but as the baby fish grow up, they migrate into Indonesian and Australian waters. Thus ecological pollution around the Spratlys resulting from military activities, especially an open armed conflict, or for other reasons, can have a wide impact that will be felt by many countries.

On that basis, preservation of maritime and marine environments is worthy of a place in the agenda of international co-operation. A number of products of international law can serve as a basis, among others, the Law of the Sea Convention of 1982, which contains explicit provisions on maritime and marine environments.

- On the rehabilitation of maritime and marine environments, including coastal zones, certain activities deserve mention;
- The ASEAN-Australian cooperative programmes on marine science, both for regional ocean dynamics and for live coastal resources;
- The ASEAN-Japan network for environmental management;
- The ASEAN-USA environmental improvement project;
- The ASEAN-Canada cooperative programmes on marine science, Phase II, on establishing environmental criteria for the development of live resources and human health protection;
- The programme covered by East Asian Sea Trust Fund.



Those forms of cooperation reflect a common concern with the preservation of the sea and coastal ecosystems.

### Archipelagic Waters

After the 1982 Convention came into force, a number of new conceptions or definitions have become part of the vocabulary of positive international law. One of these is archipelagic water. Parts of Indonesia's archipelagic waters can physically be classified into enclosed and semi-enclosed waters/seas. Therefore, almost all parts of its archipelagic waters are vulnerable to sea-based and land-based activities that will disturb the ecosystem equilibrium. In order to preserve the sea ecosystem, including the coastal areas, in the archipelagic waters, serious efforts are necessary from planning to enforcement:

- Complete regulations and legal infrastructure on efforts to preserve sea ecosystem comprising conservation of biodiversity, prevention of pollution, conservation of forests in the areas of the upper course of the river, etc.
- Complete regulations and legal structure on the division of powers between the central and local governments, and between central and local institutions.

- Complete regulations and legal structure on the zoning of various kinds of land-based and sea-based activities, including the determination of sea-lanes through archipelagic waters.
- To provide man power and hardware to ensure law enforcement.
- To carry out continuous campaigns in society on the observance of various regulations on the preservation of sea ecosystem, the prevention of pollution, etc.

### Conclusion

Coastal management in an enclosed sea environment is a complex problem. A comprehensive vision is necessary not only on the part of government officials or the private sector, but also the whole society, considering that the equilibrium of coastal ecosystem is also affected by various activities in the upper course of the river. International cooperation is also necessary in the preservation of sea and coastal ecosystems, in view of the interrelationship and balance between the two, among other things, because of the sea currents that can carry around the negative effects on the sea ecosystem, because of migratory species, etc.



# Economic Reform in Indonesia: The Transition from Resource Dependence to International Competitiveness

*Ali Wardhana*

## Introduction

**O**VER the past 30 years, Indonesia's economic structure has undergone a remarkable transition. In 1967, Indonesia was in chaos. Per capita income had declined to a level below that reached five years earlier, the economy was wracked by hyper-inflation, the agriculture sector could not produce sufficient food to feed the country, and poverty was the lot of the majority of the population.<sup>1</sup> Although the New Order Government moved quickly and decisively to establish some degree of economic order, even as recently as 1985, Indonesia showed little evidence of industrialisation. At that time, Indonesia's exports still consisted largely of oil and gas with a vari-

ety of other primary products making up most of the rest. The agricultural sector still constituted some 24 per cent of GDP while non-oil/gas manufacturing contributed less than 14 per cent. Yet by 1994, real GDP had grown by an average of 7.6 per cent per year for a decade and non-oil/gas manufacturing had grown to 20 per cent of GDP. This level of economic performance made Indonesia one of the countries included in the World Bank's *East Asian Miracle* volume.

The New Order Government has been committed to the trilogy of development: growth, equity and stability. For the past thirty years, the government has sought to improve equity while promoting growth. This has led to a substantial reduction in poverty and a general movement toward and increased degree of income equality. Moreover, in order to attain growth and equity, the government has placed a strong emphasis on developing human, as well as physical, capital.

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<sup>1</sup>See for example, Malcolm Gillis, "Episodes in Indonesian Economic Growth," in Arnold C. Harberger (ed.) *World Economic Growth*. San Francisco, CA.: Institute for Contemporary Studies (1984) reports that inflation, measured the Jakarta consumer price index, reached an annual rate of 636 per cent in 1966.



With a 1994 capita income of US\$ 877, Indonesia cannot yet claim to be a "developed country", but it has clearly demonstrated that rapid growth, combined with an improvement in equity and a reduction in poverty, is possible even in a large and populous country.<sup>2</sup>

The details of the economic measures that transformed the Indonesian economy have been described elsewhere and little is to be gained by repeating them here.<sup>3</sup> Rather the first section of this article describes the five main policy actions that have laid the groundwork for the rapid growth of the past years: the stabilisation policies of the late 1960s; tax reform; trade reform; foreign investment reform, and the financial sector reform.

Indonesia's policy-makers are often given high marks for focussing on the essential reforms needed to get the economy moving. And indeed, as is shown in the second section of this article, by nearly any criteria it is fair to conclude that economic management has been successful. Yet the question remains why were the specific policy reforms chosen. At one level it

could be argued that the reforms are no more than the standard prescription offered to all nations seeking to gain the benefits from global integration. But one must remember that these reform measures seemed much more risky and less obvious in the 1960s and 1980s than they do today. Indeed some of the reforms were considered radical. Why were these policy initiatives politically acceptable in Indonesia when numerous countries, even today, find it difficult to follow these same policy prescriptions? Additionally what reforms are still needed? These issues are addressed in the last section of this article.

## The Major Reforms

### *Stabilisation Reforms*

Although the major reforms that underpinned Indonesia's transition to manufactured export-led growth were undertaken in the 1980s, the seeds of change were planted earlier. The New Order Government that came to power following the 1965 uprising faced a chaotic political and economic situation. The economic situation was so difficult as to leave little doubt that stabilisation had to be the first order of business. The economic team, which was formed in March of 1966 moved quickly and forcefully to restore some semblance of economic order, realising that only then could attention be turned to those reform measures that would allow the economy to grow. The first stabilisation program was revealed in September 1966, after an initial agreement with the Western creditors on debt relief and new loans had been reached. At that time a number of mea-

<sup>2</sup>See Appendix Tables 1 and 2 for the basic national account data. All data are at constant 1993 prices and were appropriately converted to US dollars at the average 1993 exchange rate. Conversion to constant 1993 performed by the author.

<sup>3</sup>See for example Wing Thye Woo, Bruce Glassburner, and Anwar Nasution, *Macroeconomic Policies, Crisis, and Long-Term Growth in Indonesia, 1965-90*. Washington, DC: The World Bank - Comparative Macroeconomic Studies (1994); Dwight H. Perkins and Michael Roemer (eds.), *Reforming Economic Systems in Developing Countries*. Cambridge, MA.: Harvard Institute for International Development (1991).



asures were taken that helped establish a semblance of economic equilibrium. The government tightened the money supply, ended subsidies for "key" consumer goods, abolished all quantitative restrictions on imports, and devalued the rupiah. One of the most remarkable aspect of the period that followed was that not only did the stabilisation program succeed in reducing inflation, it also led to a real expansion, rather than a contraction, of GDP. This outcome had an important political effect. The initial success of the stabilisation measures established the credentials of the economic team and gave them the necessary support that subsequently allowed them to dismantle other inefficient but politically popular programs and policies.

Two features of macroeconomic management adopted during the stabilisation period have been instrumental in guiding the economy ever since. *First*, the *New Order Government* constrained its spending discretion by requiring a balanced budget each and every year. Although foreign borrowing was and is used to balance the budget, to the extent that the supply of official foreign credits is inelastic, the balanced budget rule serves to enforce a measure of budgetary discipline that protects the economy from inflationary excess. *Second*, in 1970, the government declared the rupiah to be fully a convertible currency, with no restrictions on the flow of foreign exchange into or out of Indonesia. This move was radical at that time and would still be considered radical today by some economists. They would argue that such a sequencing of policy reforms is risky and wrongheaded because an opening up of the capital market, ahead of a full exchange rate and tariff reform, will bring in such capital inflows that

the exchange rate will appreciate, undermining the efforts needed to promote non-traditional exports.<sup>4</sup> Despite being warned that immediately removing controls on capital flows was extremely risky, the economic team went ahead because they realised that an open capital account was needed to place an external constraint on monetary policy. The open capital account constrains monetary policy by ensuring that any monetary mismanagement will show up almost immediately in an outflow of foreign exchange. Thus convertibility imposed the discipline needed to deal with monetary pressures whenever they arose.

These two policy anchors -- the balanced budget rule and the open capital account -- left the economic team no choice but to keep macroeconomic balances under close control at all times and served to strengthen their hand *vis-a-vis* others whose economic instincts might have been more expansionary.

### *Tax Reform*

In the early 1980s the economy faced a serious crisis. A slowdown in world economic growth led to a fall in real exports

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<sup>4</sup>See for example Vittorio Corbo, Jaime deMelo, and James Tybout, "What Went Wrong with the Recent Reforms in the Southern Cone," *Economic Development and Cultural Change* 34 (1986), 607-640 and Sebastian Edwards, "Sequencing Economic Liberalization in Developing Countries," *Finance and Development* (March 1987): 26-29. While an opening of the capital account obviously can result in a major flow of returning capital that can create exchange rate management problems, Indonesia was not confronted with substantial overseas holdings and by domestic residents and so was not threatened with a massive return flow of capital. Moreover capital markets are less integrated in the 1970s than they are today so that foreign equity capital was not as likely to undermine the exchange rate.



of 9 per cent in 1982 together with a decline of 0.3 per cent in real GDP. At the same time the current account deficit rose from 1 to 6 per cent of GDP. Various measures were taken to regain macroeconomic balance. The 1983 budget was an austere one, allowing for only a 6 per cent nominal increase in government expenditure. Construction of four major projects was stopped and other projects were put under review. Monetary policy was tightened and on March 30, 1983, the rupiah was devalued by 38 per cent, bringing the real exchange rate back to the level set by the 1978 devaluation.<sup>5</sup> Although these measures were severe, it is important to remember that by this time the economic team had sixteen years of experience in managing the economy through boom and bust and in the process had earned a considerable degree of respect and trust, both domestically and internationally.

Resource mobilisation was also stressed as a way of reducing pressure on the balance of payments. Various directed credit programs were discontinued and the State Banks were allowed to set their own interest rates so that for the first time they could compete with the private banks which had already been exempted from interest rate regulations. But perhaps the most significant reform introduced at that time was the tax reform of December 1983.

It is often suggested that tax reform was a response to the 1983 decline in oil prices. While the oil crisis certainly provided a rationale for its introduction, and made the reforms more acceptable than it might

otherwise have been, planning for the reform had begun a number of years earlier. Thus, the rationale for tax reform was less an immediate crisis than a recognition that over the longer term Indonesia could not remain overly dependent on oil and gas revenues for its foreign exchange earnings and as a source of domestic revenues. The tax reform effort introduced a thoroughly modern tax system, which recognised that a highly complex system, with high marginal rates, was not only difficult to implement but was also destructive of economic efficiency. The new tax code reduced the number of tax rates to three -- 15, 25, and 35 per cent<sup>6</sup> -- and moved to a self-reporting income tax system. To make enforcement easier, the cutoff point for taxable income was doubled, reducing the proportion of the population subject to income tax from 15 to 10 per cent.

In April 1985, this initial reform was followed by the introduction of a value-added tax of 10 per cent. Here too Indonesia was a pioneer. It was not only the first developing country to adopt modern tax principles but it was the first country to introduce a value added tax system. The impact of these measures was to eliminate wasteful exemptions, increase government revenues, and ensure that the tax burden was more equitably distributed. A few years later these reforms were followed by the introduction of a new property tax law that thoroughly revised that tax, placing it on a more equitable footing.

<sup>5</sup>Woo, et al., *op cit.*, 33.

<sup>6</sup>The tax rates was reduced to 10, 15 and 30 per cent in 1995.



Table 1

CENTRAL GOVERNMENT REVENUES: 1982/83 - 1993/94  
(Percent of GDP)

Item	1982/83	1985/86	1986/87	1989/90	1990/91	1991/92	1992/93	1993/94
Revenue (a)	18.2	19.7	15.1	16.6	20.2	17.9	17.1	17.8
Oil and gas	11.9	11.3	5.9	6.4	8.6	6.6	5.8	4.2
Non-oil and gas	5.5	6.7	7.1	8.8	10.2	10.0	10.3	11.2

(a) Includes external grants.  
Source: Based on Ministry of Finance date.

The tax reform led to a dramatic increase in the revenues derived from the non-oil and gas sector. As evident from the data in Table 1, non-oil/gas revenues rose from 5.5 per cent of GDP in 1982/83 to 11.2 per cent in 1993/94, substantially offsetting the fall in oil and gas revenues.

Trade Reform

Although macroeconomic management was generally sound throughout the oil boom period, the presence of oil-generated income hid the cost of substantial micro-economic mismanagement. Domestic industries, which flourished behind high protective barriers of tariffs and myriads of import controls, gave the impression of robust industrial development. In fact this was no more than the growth many countries experience in the initial stages of import substitution. Rent seeking behaviour was rampant and the customs authority had become corrupt and inefficient, further contributing to high import costs, while exchange rate changes were infrequent and abrupt.<sup>7</sup> These inefficiencies,

which become known as the “high cost economy”, could be tolerated as long as oil revenues provided the resources needed for investment and growth. But with the collapse of oil prices in 1985, Indonesia faced another crisis: the need to stimulate non-traditional exports. In order to do this, the “high cost economy”, had to be tackled.

The seriousness of the effort to dismantle, or the least alleviate, the bottlenecks to improved export performance, is exemplified by INPRES (*Presidential Instruction*) No. 4, issued in April, 1985. This decree drastically reduced and simplified administrative procedures for imports and exports, allowed greater use of foreign shipping, extended port operations to twenty-four hours a day, and brought in a privately owned Swiss firm, *Societe General de Surveillance* (SGS), to provide customs clearance for all shipments valued in excess of \$ 5,000. Within months the ports became unclogged and tariff revenues rose, while the cost of importing fell noticeably.

<sup>7</sup>The rupiah, which is now against a basket of currencies, was devalued in 1966 to approximately Rp 100/US\$ at the time the new rupiah was introduced; devalued again on March 30, 1983 to Rp 909/US\$; and again on September 12, 1986 to Rp 1,283/US\$.

In 1986, the first year when the fall in oil prices was reflected in lower oil revenues, two further reform measures were announced. In May 1986, the government established a duty drawback facility,



*P4BM*, that enabled export industries to import inputs duty free, and to import directly, regardless of the licensing restrictions that were applied. The agency granting these special exporter facilities - *BAPEKSTA* - is a part of the Ministry of Finance. It quickly and efficiently implemented the duty drawback scheme, substantially reducing exporter's cost of doing business. In September of 1986 the rupiah was devalued by 45 per cent and a more flexible exchange rate management system was introduced so that, until 1990, the real value of the rupiah, and hence the real incentive to exporters, was maintained.<sup>8</sup>

These trade related reforms enhanced the incentive for manufactured exports and gave firms that invested for export confidence that their profitability would not be impeded by government action. The result has been that non-oil exports grew from about US\$ 5.9 billion in 1985 to about US\$ 30.4 billion in 1994 -- a more than five-fold increase over a nine year period. The annual growth rate of 20 per cent was more than four times faster than world export growth. This development compares favourably with Korea's extraordinary growth in exports of about 23 per cent per annum and to Taiwan's export growth of about 16 per cent per annum between 1970 and 1980. The ratio of non-oil exports to GDP rose from 7 per cent in 1985 to about 20

per cent in 1994. Including oil and gas exports, the ratio of exports to GDP stood at 22 per cent in 1992, well above the average for all middle income countries (16 per cent) and equal to the average for East Asian economies.<sup>9</sup> The composition of non-oil exports also underwent a dramatic change. In 1985, primary products such as rubber, coffee, tea and tin, and aluminum, accounted for close to one-half of total non-oil exports; by 1994 their share had fallen to about one-quarter even though their absolute value had increased. Exports of garments, textiles, footwear and plywood grew rapidly and more recently furniture, electrical products, and paper products, have further diversified the export structure. By 1994, Indonesia was the third largest footwear exporter in the world, (behind Italy and China), was the 12th largest exporter of textile fibers and yarn and the 11th largest exporter of garments, the 13th largest exporter of furniture, and had achieved significant world markets shares, in excess of one per cent, in such electronic products as VCRs and sound recording equipment, TV receivers, and radios.<sup>10</sup>

Creating an environment conducive to export development depends not only on improving the access by exporters to imported capital and intermediate goods, but also on a general rationalisation of the tariff regime. It is by now well understood that tariff protection acts as an indirect tax on exports. The high rates of protection enjoyed by various industries were, in

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<sup>8</sup>Since 1990 the rupiah real exchange rate against the dollar has appreciated sharply but, given the depreciation of the dollar against most other currencies since 1990, the aggregate real exchange rate of the rupiah had been little changed until mid-1995. After mid-1995 the appreciation of the dollar against other currencies led to an appreciation of the aggregate real exchange rates.

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<sup>9</sup>See *World Development Report*, 1994, Washington DC.: World Bank.

<sup>10</sup>Based on United Nations trade data.



fact, equivalent to a high tax on exports. Beginning in 1986 a series of deregulation packages has gradually lowered tariffs and partially dismantled the non-tariff barriers that supported the “high-cost economy”. The impact of these tariff reform measures on the nominal and effective rates of protection are shown in Table 2. These data confirm that, on average, there has been a substantial reduction in the protection afforded all tradable goods sectors and that the decline in the nominal rates of protection have been accompanied by a reduction in the anti-export bias of the trade regime. The measured anti-trade bias of the commercial policy regime has fallen from 41 per cent in 1987 to 31 per cent in 1994 following the opening up of the economy.

Although the deregulation measures prior to 1995 reduced many tariffs and eli-

minated necessary non-tariff barriers, much remained to be done. While the effective rate of protection for manufactures had fallen, it was then still the highest among some East Asian countries, including Malaysia and Korea. The high rate of effective protection not only created an anti-export bias but meant that the protected firms were able to serve the domestic market but were not likely to become exporters. In May of 1995 a significant effort was made to resolve this problem. In what is known as Pak Mei '95, tariffs were reduced to 96 per cent of the tariff lines with tariffs in excess of 5 per cent and 81 of 269 remaining NTBs were eliminated. More importantly, a 15-year schedule of tariff reductions was put into place that will lower nearly all tariffs to 10 per cent or less 2010, with nearly two-thirds of the lines being at 5 per cent or less.

Table 2  
PROTECTION IN BROADLY DEFINED ECONOMIC SECTORS  
(Per cent)

Item	Nominal Rate of Protection				Effective Rate of Protection			
	1987	1990	1992	1994	1987	1990	1992	1994
Agriculture	9	8	8	5	16	15	14	9
Mining and quarrying	0	0	0	2	-1	-1	-1	-1
Non-oil manufactures	13	10	9	9	39	34	29	20
All tradables	9	8	7	6	16	14	13	11
Import-competing	17	15	13	11	39	35	22	22
Export-competing	-1	-1	-1	-5	-2	-1	-3	-6
Anti-trade bias of commercial policy	41	36	34	31				

Source: For 1987 and 1990, George Fane, *Agricultural and Agro-Industrial Policy in Indonesia: a Survey*, processed (March 1991) and for 1992, *An Economic Assesment of the Food, Beverages and Tobacco Sector in Indonesia*, processed (Desember 1992). The date for 1987, 1990 and 1992, together with the estimates by Condon and Fane for 1994 are presented in Timothy Condon and Goerge Fane, *Measuring Trade Deregulation in Indonesia*, paper prepared for the conference on *Building on Success: Maximizing the Gains from Deregulation*, Jakarta, Indonesia, April 1995.



### *Foreign Investment*

While foreign investors responded favourably to the trade and tax provisions of various deregulation packages, reform of investment regulations was required before full advantage could be taken of heightened investor interest. Until 1989, a set of complex restrictions limited the industries open to new investments and procedures for obtaining approval from the investment agency, BPKM, were cumbersome. In May 1989 these restrictions were substantially scrapped and a much shorter list of restricted industries was introduced.<sup>11</sup> The deregulation of investment provided another avenue to a more competitive and more productive economy. In addition, the inflow of foreign investment helped transfer technology and to market exports. Realised foreign investment rose from \$ 0.4 billion in 1987 to \$ 1.7 billion in 1992, with most of the growth occurring in manufacturing investments. Most important perhaps, even in sectors where trade barriers remain high, the freedom to invest has helped create a modicum of domestic competition and generated pressures to reduce cost and maintain productivity.

Since the early 1990s, there has been a progressive loosening of investment restrictions. In a series of deregulation packages, the sectors on the list of restricted industries has been substantially reduced and the regulations regarding the domestic ownership requirements and foreign owner-

ship divestiture have been substantially liberalised. These further reforms have led to substantial further increases in foreign direct investment. By 1994, foreign investment approvals exceeded \$ 24 billion and in 1995 foreign investment approvals nearly reached \$ 40 billion.

### *Financial Sector Reform*

The economic team recognised that an expanding industrial base required a modern financial system to support its activities. Without a reasonably competitive financial structure, the investment opportunities opened up by the trade reforms could not be exploited. When the New Order Government came to power, the Dutch-owned banks that had dominated the financial system had been nationalised and eventually merged into one institution, Bank Negara Indonesia (BNI). This monolithic structure was unworkable. As a first step towards creating a more modern financial system, in 1968 a central bank, Bank Indonesia, was created and BNI was split into five state banks.

These state banks continued to dominate the banking system while interest rates were controlled and credit was directly allocated to various banks and sectors. Indeed Bank Indonesia not only gave direct credits to certain enterprises, it also gave 'liquidity' credits to the banking system, primarily state banks, to promote targeted activities. As a result Bank Indonesia and the state-owned banks supplied between 85 to 90 per cent of all bank credits.

Credit reforms began in 1983, when the artificial restrictions on the allocation of bank credit and state bank interest rates were

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<sup>11</sup> Subsequent measures have opened up nearly all sectors to investment and eliminated the rule that foreign investors ultimately had to divest controlling interests in investments to local partners.



eliminated. Bank Indonesia also reduced its previously significant role in refinancing bank loans and introduced the Bank Indonesia Certificate (SBI) as a means of improving monetary control. The SBI was a short-term liability of the central bank, that was sold periodically by the central bank to the commercial banks and other financial institutions as a means of reducing the supply of reserve money.<sup>12</sup>

An immediate outcome of these reforms was to substantially increase interest rates paid on deposits and charged for loans, with an improvement in resource allocation, even though the state-owned banks continued to dominate the system.

It was not until October 1988 that the government turned its full attention to the problem of restructuring financial markets. The measures introduced then, referred to as PAKTO '88, instituted a set of reforms designed to enhance competition within the financial sector by removing some of the barriers to entry that had remained in place, even after the 1983 reforms. Under PAKTO '88 restriction on the operations of foreign banks were eased, the procedures for establishing branch banks were simplified, and the requirements for becoming a foreign exchange bank were relaxed. The PAKTO '88 also reduced the special privileges and responsibilities of the state-

owned financial institutions and narrowed the differential tax treatment affecting various financial instruments. Finally, Bank reserve requirements were lowered to a uniform 2 per cent on all deposits, successfully reducing the spread between borrowing and lending rates. Bank Indonesia sterilised most of the immediate expansionary effect of this change by forcing the banks to hold increased quantities of SBIs as secondary reserves. In mid-1989 and early 1990, monetary policy loosened and credit growth reach an annualised rate of 70 per cent by the middle of 1990. The situation was however quickly brought under control by some monetary tightening.

The financial reforms had an almost immediate impact on increasing bank deposits and loans although, with the open capital account, it is difficult to disentangle the effect of any financial change from a simple shifting of activity from offshore to onshore and vice versa. Between June 1983 and December 1987 the ratio of total bank assets to GNP rose from 26 to 42 per cent. It is probably fair to suggest that this high rate of growth resulted from some combination of increased real savings, increased saving in the form of financial assets, and repatriation of past financial saving from overseas.

PAKTO '88 was followed by further reforms that had as their objective to enhance the competition of the financial system. Subsequent measures were designed to develop a securities market and create an environment conducive to the growth of a variety of other financial institutions and instruments, such as venture capital, leasing, and credit cards. Measures announced in March 1989 strengthened the legal lending limits and a January 1990 measure abolish-

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<sup>12</sup>For a more complete description of the financial sector reforms, see David C. Colc and Betty F. Slade, "Reform of Financial Systems," in Perkins and Roemer, *op. cit.* as well as John Harris, F. Schiantarelli, and Miranda G. Siregar, "The Effect of Financial Liberalization, Capital Structure and Investment Decisions of Indonesian Manufacturing Establishments," *World Bank Economic Review* 8, no. 1 (January 1994): 17-47.



Table 3

CREDIT VOLUME: 1980 - 1994  
(Per cent)

Item	1980	1982	1984	1986	1988	1990	1991	1992	1993	1994
Total credit as per cent of GDP	17	21	21	26	31	50	50	47	50	50
Manufacturing credit as per cent of total credit	28	30	35	34	34	31	29	30	34	32
<u>Total credits by source:</u>										
State banks	55	62	71	67	65	55	53	56	48	42
Private banks	9	12	19	21	24	36	37	34	40	46
Foreign banks	5	5	6	5	4	6	7	8	10	10
Bank Indonesia	31	21	5	4	4	1	1	...	...	...

Source: Bank of Indonesia

ed the bulk of Bank Indonesia's liquidity credit arrangements.

As the banking system was expanding, it quickly became apparent that deregulation of banking could not mean an absence of regulation. Although some prudential regulations were put into place and substantial efforts made to ensure their implementation, serious weaknesses developed in the quality of banks' assets; weaknesses that led to the near failure of a major private bank in 1991 and the actual failure of Bank Summa in 1992. These banking sector weaknesses contributed to higher risk premia for Indonesian borrowers in foreign markets. In response to these emerging problems, the government announced new regulations in February 1991 on loan loss provisioning and Basel Committee capital adequacy guidelines. Although progress has been made in reducing the ratio of non-performing assets to total earning assets, this ratio continues to be high for the state-owned banks. Further efforts must be made to improve the loan portfolios of the state-owned

banks, something that may prove difficult until these banks are privatised.<sup>13</sup> One lesson learned from the efforts to reform the financial system is that it is often easier to deregulate the financial system than it is to ensure that the newly deregulated system operates with a degree of financial prudence that will protect both savers and investors.

The December 1988 reforms permitted the opening up of private securities markets while also clarifying regulations governing insider trading and other unsound and unfair practices. In May 1989, the Minister of Finance issued a decree permitting foreign shareholders to own 49 per cent of the shares listed by any company, except commercial banks. These changes, plus the active promotion by BAPEPAM, the capital markets agency, of the stock market as a source of investment funds has brought

<sup>13</sup>In early 1996, the government that year announced that BNI, of the oldest of state-owned banks, would be privatised during 1996.



new life to the previously moribund Jakarta Stock Exchange. At the end of 1988, only 24 stocks were listed on the exchange; today there are more than 237; while the capitalised value of the exchange has risen from \$ 249 million to over \$ 75 billion today. While the revitalised stock market opened up another channel for mobilising investment resources, the boom also highlighted the need for regulations and procedures that will ensure a smooth and reliable functioning of the stock market, consistent with regulatory practices in other countries. Finally, a critical element of Indonesia's development strategy involves stimulating rural development, rural incomes, and rural employment. Because of this concern the financial reforms were also extended to the rural sector. Through the *Unit Desa* program of Bank Rakyat Indonesia, a state-owned bank, targeted and subsidised loan programs have been replaced with a rural savings and loan scheme based on market interest rates. Despite some initial scepticism, the BRI rural credit reforms have been remarkably successful. From the end of 1984, the first year of the reforms, through December 1995, the volume of rural credit outstanding from the Unit Desas has expanded 29-fold, while savings deposited with these units have multiplied 143-fold. The Unit Desas now constitute the most profitable of BRI's operations, mobilising substantial savings while providing small farmers and rural borrowers with needed funds.<sup>14</sup> Here too the lesson learned is that reform and deregulation can

benefit small farmers and entrepreneurs as much as they support large investments.<sup>15</sup>

## The Results

### Growth

Indonesia's economic growth has been strong throughout the past two decades, as the data in Table 4 show, but there was a clear accelerating of growth in the later reform period. In itself this does not justify the deregulation measures. Growth can be accelerated by raising investment levels although the sustainability of such an effort may be called into question. Indeed, Indonesia's fixed capital formation as a percentage of GDP rose from 23 per cent in 1981 to 28 per cent by 1994, giving it one of the highest capital formation proportion among developing countries.<sup>16</sup> Encouraging as this outcome is, what is more important is that total factor productivity increased after 1985, when the deregulation measures began in earnest. This is in contrast to the period 1979-85, when there was no statistically significant increase in total factor productivity. More specifically: after 1985, GDP grew about 1.1 percentage points per year faster than can be explained by the inputs of capital, labour, and human

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tional Development) (1991). Patten and Rosengard note the program's long-term loss ratio is about 3 per cent.

<sup>15</sup>In order to give further credibility to the stock market, the Government in 1995 enacted a new capital market law that much codified much of the regulatory innovation that preceded it.

<sup>16</sup>Because the stock estimate in the national accounts are a residual in the national income calculations we restrict ourselves to the ratio of fixed capital/GDP.

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<sup>14</sup>See for example Richard H. Patten and Jay K. Rosengard, *Progress with Profits: The Development of Rural Banking in Indonesia*. San Francisco: CA.: International Center for Economic Growth (together with the Harvard Institute for Interna-



Table 4

GROSS DOMESTIC PRODUCT: 1973 - 1994  
(Rupiah billions; constant 1993 market prices)

Item	Values				Annual rates of growth		
	1973	1985	1990	1994	1973-85	1985-90	1990-94
1. Agriculture	28,759.6	44,646.3	53,056.2	59,153.8	3.7%	3.5%	2.8%
(a) <i>Food crops</i>	15,880.7	26,446.3	30,193.1	31,226.9	4.3	2.7	0.8
(b) <i>Others</i>	12,878.9	18,200.0	22,863.1	27,926.9	2.9	4.7	5.1
2. Mining and quarrying	19,115.4	22,638.1	26,627.8	33,172.4	1.4	3.3	5.6
3. Manufacturing	6,753.6	32,114.0	54,210.5	81,690.3	13.9	11.0	10.8
(a) <i>Non-oil/gas</i>	<i>n.a.</i>	25,798.8	45,460.7	71,404.3	12.7 <sup>(a)</sup>	12.0	11.9
(b) <i>Other</i>	<i>n.a.</i>	6,345.2	8,749.8	10,285.9	24.1 <sup>(a)</sup>	6.6	4.1
4. Electricity, gas and water	468.4	1,216.1	2,507.6	3,707.4	8.3	15.6	10.3
5. Construction	3,145.4	9,856.4	15,225.6	25,824.6	10.0	9.1	14.1
6. Banking and financial service	1,051.0	5,613.3	10,102.4	15,732.7	15.0	12.5	11.7
7. Other services	30,043.2	72,298.3	101,531.8	134,692.2	7.6	7.0	7.3
<b>GDP</b>	89,336.6	188,412.4	263,261.9	353,973.4	6.4	6.9	7.7

Notes: <sup>(a)</sup> For 1978 - 1985

Source: Derived from Statistical Office data.

capital.<sup>17</sup> These results suggest that the increase in total investment and the improvements in resource allocation that occurred after the deregulation process began, led not only to more rapid growth based on applying larger quantities of capital and labour to the production process but ensured that the rapidly accumulated factors were more efficiently used. While this result is encouraging it is also worth noting that other analysts suggest that in Indonesia total factor productivity growth accounted for a smaller increase in per capita GDP growth than elsewhere in Asia.<sup>18</sup> Although

it is difficult to pinpoint a reason for this result, it has been suggested that one explanation may be the low levels of learning achievement of the Indonesia labour force relative to other East Asian countries. Whatever the reason it is fair to conclude that the deregulation measures did contribute to the high rates of growth in Indonesia, a contribution that went beyond the increase in investment that followed the opening up of the economy.

### *Employment and Wages*

The rapid growth experienced over the past twenty-five years, and especially over the decade, has led to a considerable increase in employment and thus reduced poverty. Manufacturing employment grew at an annual rate of 5.6 per cent over the period 1971 to 1985, but at a rate of 7.2 per cent over the next five years. A major con-

<sup>17</sup>Dipak Dasgupta, James Hanson, and Edison Hulu, "The Rise in Total Factor Productivity During Deregulation: Indonesia 1985-1992." *Building on Success: Maximizing the Gains from Deregulation*. Paper presented at the conference commemorating the Golden Jubilee of the Republic of Indonesia, Jakarta, Indonesia (26-28 April 1995).

<sup>18</sup>See *The East Asian Miracle* (New York: Oxford University Press, 1993), 64.



tributor to the growth in employment has been the jobs created in the labour intensive export industries. While labour force growth is likely to decelerate in the future, as the effects of slower population growth are felt, labour will continue to be in ample supply with a continued need for rapid employment creation. While wage policy must remain sensitive to need for employment creation it must also recognise that higher wages for workers, are in a sense, the ultimate goal of economic development. Increased wages translate directly into higher incomes and reduced poverty, and result in improved health and welfare. All indicators suggest that wages have risen rapidly in recent years. Indeed during the 1980s, the increase in real wages and other compensation to manufacturing workers has been among the highest in the region. Real earning grew especially quickly starting in 1988, partly as a result of the development strategy that focused on growth and equity, and relied on the development of labour-intensive industries.

### *Improved Welfare and Reduced Poverty*

The ultimate goal of economic development is of course an improvement in the general welfare of the population. Rapid growth by itself is an insufficient criteria by which to judge success. Indonesia holds that successful development involves the attainment of three goals: growth, equity, and stability. It is therefore necessary to ask whether, and to what extent, have the deregulation measures contributed to these goals? As noted above, the deregulation has resulted in a high degree of economic stability and growth but to what extent has greater equity been achieved.

Perhaps the most significant achievement of Indonesia's development strategy has been the substantial reduction in poverty. Only twenty-five years ago, poverty was widespread through the country. Some estimates suggest that almost 60 per cent of the population, nearly 70 million people, were living in absolute poverty in 1970. Since then, poverty has declined steadily and significantly, as shown in Figure 1. Indeed during the years 1970 to 1987, Indonesia has had the higher annual average reduction in the incidence of poverty among countries studied by the World Bank.<sup>19</sup>

There are several reasons for Indonesia's success in reducing poverty. Investment in economic and social infrastructure in the 1970s kept the non-oil economy, especially agriculture, viable. Even during periods of financial stringency, a serious attempt was made to protect fiscal allocations to programs which directly benefitted the poor, including the rural poor. For example, modest positive real growth in public investment in the agricultural sector was maintained, while public non-agricultural investment contracted. Among both routine and development expenditures, programs that benefitted the poor, were sheltered.<sup>20</sup> In fact the severest development expenditure cuts were in the more capital-intensive industrial and mining sector projects.

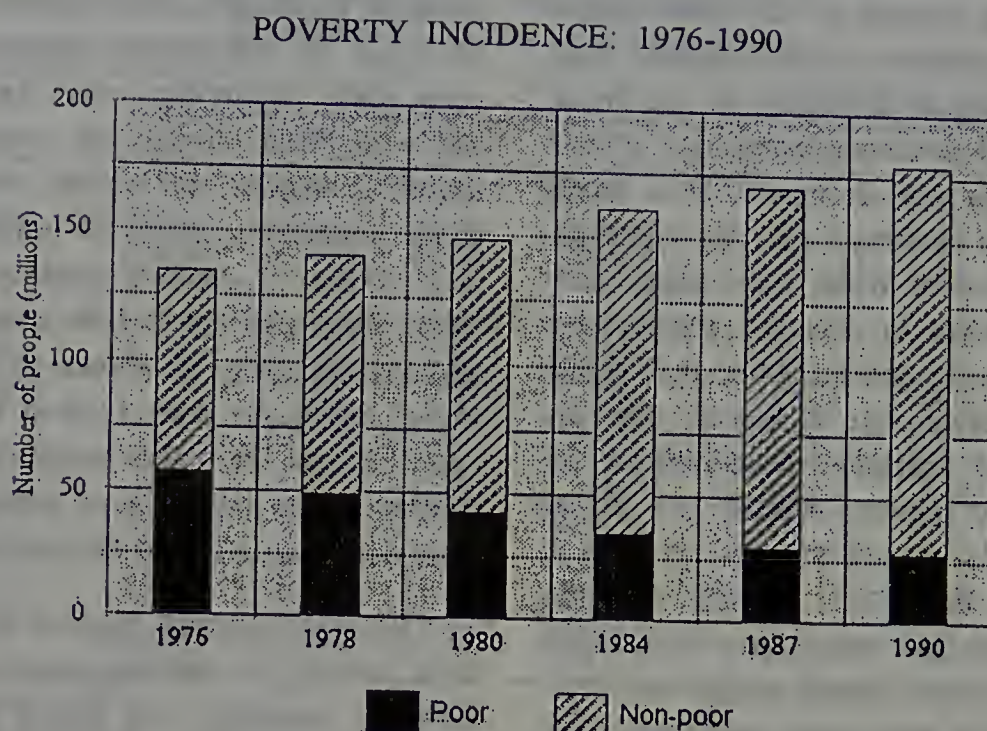
Human resource development also has received strong emphasis in the develop-

<sup>19</sup>World Bank, *World Development Report: 1990*. New York: Oxford University Press (July 1991): 45.

<sup>20</sup>Martin Ravallion and Monika Huppi, "Measuring Changes in Poverty: A Methodology Case



Figure 1



ment strategy, both as a means of raising living standards and to increase the capacity for growth. Over the period 1960 to 1990, Indonesia managed to raise life expectancy from 41 to 62 years; reduce infant mortality from 159/thousand live births to 61/thousand live births; decrease adult illiteracy from 61 per cent to 23 per cent and raise the primary school enrollment ratio from 71 to 118. Despite having a much lower income level, and starting from a much lower base than many of its East

Asian neighbours, Indonesia's record in human resource development shows that it is catching up with other East Asian countries. More important, the provision of social services has not been limited to urban areas nor to the upper income groups. Indeed access to social services by the poorest 40 per cent has been high and has increased during the past fifteen years. Improved access of the poor to basic education and health services has been an important factor in the reduction of poverty.

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Study of Indonesia During an Adjustment Period," *World Bank Economic Review* 5 (1991): 52-82, report that "... although legitimate doubts can be raised about the *size* of the changes involved, the analytic techniques adopted allow us to reach the unambiguous conclusion that poverty and under-nutrition in Indonesia continued to decline during the difficult period of the 1980s."

### *Equity*

Evidence on the distribution of personal income is limited but the available data point to a gradual reduction in disparities. The share of personal expenditures by the poorest 20 per cent of the population im-



proved from 6.9 per cent in 1970 to 8.9 per cent in 1990.<sup>21</sup> Indonesia's relatively low and declining level of inequality is also indicated by the trend in the Gini coefficient, estimated from the distribution of personal expenditures, which fell from 0.35 in 1970 to 0.32 in 1990. Although the evidence is not conclusive, it does not support the contention by some that the deregulation measures have benefited only the upper income groups or the conglomerates.

Despite this evidence, particular concerns have been raised that the financial reforms, have increased access to the financial resources by the conglomerates. A recent analysis of the effects of financial liberalisation suggests that "... *small establishments, which previously lacked access to the financial system, benefited from improved access even at substantially higher interest rates...*".<sup>22</sup> While there is evidence of a relatively high and growing concentration of ownership and market power in the modern business sector, there is little evidence to suggest that this trend was directly a result of the deregulation process.

## Final Thoughts

There are two questions that remain to be addressed. What allowed Indonesia to carry out its economic reform process while maintaining a relatively good record on poverty alleviation and agricultural development? And what is the remaining reform agenda?

<sup>21</sup>This compares to 5.5 per cent in the Philippines and to 4.5 per cent in Malaysia and Sri Lanka.

<sup>22</sup>John R. Harris, Fabio Shiantarelli, and Miranda G. Siregar, *op. cit.*, 37.

We have already provided a partial answer to the question of why the reform process was successful in Indonesia. *First*, the economic team won the confidence of the politicians, and indeed of the populace, by successfully stabilising the economy after the chaos of 1965. *Second*, the policies maintained a relative balance between agriculture and industry, between rural and urban populations. In part this reflected the fact that Indonesia was, and to a large extent still is, a rural agrarian society. But it also reflects the strong agricultural roots of the national leadership, whose concern for the rural poor is deep and genuine. *Third*, the reform process was carried out over a relatively long period of time. While the current fashion favours a more dramatic "shock" therapy, Indonesia's approach has been one of consistent moderate progress. The argument in favour of a big shock is that rapid and forceful deregulation allows the benefits of such measures to be felt before effective opposition to the reforms can be mounted.<sup>23</sup> Whether a more rapid series of deregulation measures would have been as successful as the more gradual approach followed in Indonesia is difficult to say. What is clear is that the impact of the deregulation measures, even under a gradual approach were substantial enough to continue to mobilise support for further measures. Moreover the Indonesian social context, a gradual approach was more accept-

<sup>23</sup>For example, Balcerowitz and Gelb note that "... *a radical approach involving forceful stabilization measures and rapid liberalization is almost surely the least risky option.*" See L. Balcerowitz and Alan Gelb, "Macropolicies in Transition to a Market Economy: A Three-Year Perspective." *Proceedings of the World Bank Annual Conference on Development* (1994): 21-57.



able than a dramatic series of sudden reforms. Finally, some have found it surprising that Indonesia, a resource-rich economy, could successfully carry out a deregulation process. There is, after all, a growing literature that suggests that the process of economic adjustment and reform is often less successful in resource-rich countries than in resource-poor countries.<sup>24</sup> The important point to note here is that Indonesia is not as resource-rich as it seems. On a per capita basis, Indonesia's oil (and gas) reserves rank it among the poorest of the major oil and gas producing countries.<sup>25</sup> While it is true that oil exports formed an important part of total exports, it was also clear that the revenues earned from such exports were relatively small in comparison to Indonesia's total population. Given Indonesia's large population, Indonesia was forced to rely on more than its natural resources in order to develop.

What is the unfinished agenda? Perhaps most important is the need to ensure that current policies are effectively implemented. This requires further attention to the details of how deregulation measures affect individual decisions. In a number of

cases legal and bureaucratic bottlenecks frustrate the intent of deregulation measures. Efforts to improve the legal and managerial framework are underway, but these efforts, like all efforts to strengthen the human capital base, take time. There is also a need to ensure that the economy becomes more competitive. Restrictions on market entry and exit, on equal access to financial and other resources, must be reduced. This is essential if Indonesia is to continue to expand its export base and remain competitive in the global market. In this regard the role of the state-owned enterprises must be further reduced. While there are a number of ways that public enterprise efficiency can be improved, an accelerated program of privatization, if carried out in the domestic stock market, would not only raise public funds but would substantially increase the market's capitalisation and trading. Although, as noted, considerable effort has been made to improve the level of education, there is a growing evidence that this effort needs to be extended and strengthened. Finally, skilled labour at all levels remains scarce and a substantial effort is needed to increase the supply of scientific and managerial talent. Without such an increase in human capital, the long-term growth prospects are considerably less promising.

The challenge for the near-term is to increase the outward-orientation of the economy and strengthen the role of the private sector, so that rapid growth and poverty reduction can continue. Continuing this record of progress, will depend on further change, carefully planned and effectively implemented.

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<sup>24</sup>Cf. Alan Gelb et al. *Oil Windfalls: Blessings or Curse?* New York: Oxford University Press for the World Bank (1988); and Jeffrey D. Sachs and Andrew Warner, *Natural Resource Abundance and Economic Growth*. Cambridge, MA: National Bureau of Economic Research, Working Paper No. 5398 (December 1995).

<sup>25</sup>In 1994 Indonesia had oil reserves equal to 33 barrels/capita; Nigeria had 162 barrels/capita and Mexico oil reserves equal to 503 barrels/capita.



# Indonesia's Mineral Potential and the Awakening of Its Mineral Industry\*

*Soetaryo Sigit*

## Introduction

**T**HE last 25 years have shown tremendous development in the areas of geological mapping, mineral exploration, and mining. It has been particularly over the last ten years, as compared to the previous 300 years of the colonial Netherlands Indies, that the developments are really impressive

The many papers and reports presented by foreign experts at international meetings on exploration and mining development in Indonesia demonstrate the keen interest in the process that is going on at present in Indonesia. In Indonesia, on the other hand, there are only a few people in the geology

and mining community that are aware of what is currently taking place in this country. It's no wonder, because in Indonesia, only very few knows what geology, mineral exploration, and mining really mean.

Although, in certain areas of Indonesia there have been mining activities for hundreds of years, history says that those activities were undertaken by Hindus and Chinese who were hunting for gold. By contrast, the native Indonesians preferred to be in agriculture rather than in mining which was considered too risky.

The Dutch came later and colonized this country, but it was not until the 19th century that they started to develop the mineral potential of the country. Development, however, was slow.

The natives were employed mostly as manual labourers, and only a few managed to become foreman or supervisors. No wonder, most Indonesians considered geology and mining something alien, or, worse still, was meant exclusively for foreigners.

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\* Adapted from the English translation of the scientific oration presented before the Bandung Institute of Technology open senate meeting held at the bestowal of title of Doctor Honoris Causa in engineering science, 9 March, 1996, and published by Indonesian Mining Association.



For the laymen, technical terms used by geologists were considered to be an unintelligible language. The methods used in mineral exploration such as applying sophisticated gadgetry for piercing the depths of the earth are mere witchcraft. And miners, above all, are nothing else but mysterious people who never tell the truth.

Such an attitude is certainly not something innate to Indonesians. People elsewhere are in the same situation.

To the laymen who don't understand the risky nature of the mining business, the failure of a mining venture will readily cause him to agree with Mark Twain's well-known remark that "... a mine is a hole in the ground owned by a liar ...". In fact, speculators are everywhere who misuse the trust of investors. In the past, the saying *mining is gambling* really sounded as an excuse whenever things went wrong.

As a matter of fact, even though increasingly sophisticated equipment is being used in mine exploration today, mining remains a risky venture. Mining has its special characteristics. One does not have the option to select the location of a mine. A mine has to be located where the mineral is found.

The position, shape, size, mineral composition and properties of a mineral deposit are predetermined by nature. All successful mining ventures are preceded by high risk exploration activities that require large sums of money. This phase is followed by the pre-production period which may last as long as ten years.

As a rule, mining is capital-intensive and requires high-technology. On the other hand,

mining causes the depletion of a mineral deposit that can not be replenished. Limited life and high-risk are two characteristics of a mining venture. It is, therefore, natural for entrepreneurs in the mining business to require political stability and legal security with regard to their assets and liabilities. Mineral potential alone is not attractive enough to potential mining investors.

After this short introduction, let us discuss the history of mining in this country beginning with the colonial period to the present time.

### The Period of VOC, 1619-1799

Dutch colonisation of the Indonesian archipelago commenced in 1619, i.e. Since the Dutch East India Company (*Vereenigde Oost-Indische Compagnie*, or shortened VOC), a trading company under the leadership of Jan Pieterszoon Coen, succeeded in seizing Jayakarta and founded a new town with the name of Batavia. Originally, VOC's aim was just to obtain a monopoly on the spice trade in the archipelago. Later, however, they became a colonizing power never hesitating to crush any native potentate which might block their way. In the end, the VOC became too busy to defend or even expand its colonies, activities that resulted in additional financial burdens which became increasingly unbearable to the company. They were getting deeper and deeper into debt with the Dutch Government and could no longer meet their payment obligations. The VOC was then declared bankrupt, and on January 1, 1880 was liquidated. All the colonies and assets were taken over by the Dutch Government. Since then, the



Netherlands Indies Government was sovereign over the archipelago until its surrender to the invading Imperial Japanese Army on March 8, 1942.

Let us now reflect on what the Dutch have done during their presence in Indonesia. In the field of basic research, they did much to unravel the geology of the country; we owe a lot to Dutch scientists who performed monumental work in this regard. In mining, on the other hand, they did not succeed in developing the Netherlands Indies into a prominent mining area, in spite of the large mineral potential of the country, as we will see later.

VOC was very successful in expanding their activities from just spice trading to other pursuits, including the running of plantations. But they never showed any interest in mining. This is quite different than the Spaniards who, as the Dutch, were masters of colonisation in a number of places around the globe since the 17th century. The behaviour of the Dutch during this period is expressed aptly by Alex L. Ter Braake, a Dutch mining engineer, in his book, *Mining in the Netherlands East Indies* (1944):

"... In this connection a remarkable difference is to be noticed between the old Spanish colonies and the Dutch settlements in tropical countries. As early as the beginning of the 19th century the mineral wealth of the countries under Spanish influence was well known, but before 1850 very little had been recorded on the presence of mineral deposits in the Dutch East Indies. This is partly explained by the entirely different character of the two colonising peoples. The Conquistadors were primarily looking for gold and consequently it was the very first thing they went after when they

landed on a foreign coast. In contrast the Dutch kept to their traditional occupation; they came to trade. They wanted to buy products from the native population that were in demand in European markets. To them there was no incentive to pursue active prospecting. They depended on what the Javanese and Malay traders had to offer ...".

Not in line with the above-mentioned pattern was VOC's involvement in the mining of silver at Salida in western Sumatra. Compelled by a shortage in silver metal for coin mintage, the VOC took over the Salida mine which was previously run by the Hindus. But the VOC at that time did not have the necessary expertise in mining, whereupon they imported and employed Germans from the Harz Mountains and slaves from Madagascar to run the mine.

In southern Sumatra, besides acting as middlemen in the pepper trade since 1710, the VOC also profiteered in tin that they bought from the Sultan of Palembang and mined by Chinese on Bangka Island. Although they later obtained a monopoly in the trade of tin metal, they were no more than middlemen and showed no interest to undertake the mining of tin themselves.

## Mining in the Netherlands East-Indies

After all the assets and activities of the VOC had been taken over by the Netherlands East Indies Government, the Dutch style of governing over their colonies remained the same as what the VOC had done before. This continued until the region came under British rule in 1811. After the colony was returned to the Dutch in 1818



they changed the system. The Government's main concern was limited to running the administration, whereupon private enterprises and individuals entered the scene and showed interest in developing tin ore and coal. In 1850, the first mine regulation was enacted, making it possible to award Dutch citizens the right to mine. This regulation, however, was only applicable in regions outside the island of Java. Java was excluded because the Netherlands Indies Government was of the opinion that the right to mine would come into conflict with the existing *cultuurstelsel* (culture system), a kind of forced labour in plantations and agriculture which was already in force in Java.

In 1850, the first mining concession was awarded to a Dutch private enterprise to develop tin ore on Belitung Island. Then, in 1852, the government instituted the *Dienst van het Mijnwezen* (Mining Services) whose task was to carry out geological and mining exploration. Since then, however, developments were slow. Not until 1899 was the government able to promulgate the *Indische Mijnwet* (Netherlands East Indies Mining Law) which was to be enforced in the whole of the territory. However, it wasn't until 1906 that the government issued the implementing regulation in the form of mining ordinances.

The promulgation of the Mining Law proved to be inadequate to promote private enterprise. To help promote private investment two amendments were made, one in 1910 and the second in 1918. We may therefore infer that outside of the government-run mines such as Ombilin Coal Mine, Bangka Tin Mine, and Bukit Asam Coal Mine, the development of private mining

in the Dutch East Indies actually started after 1918 and reached its peak by the outbreak of World War II.

Apparently, at the beginning the Dutch East Indies Government's policy was to have all vital mining ventures run by the government. Later, based on the so-called '5a contract' the private sector was given a special right for the large-scale development of certain minerals, such as the nickel ore deposits in Southeast Sulawesi.

The name "5a contract" is derived from Article 5a of the Mining Law as amended in 1910. This article provided the possibility for the government to undertake mineral exploration and development as long as it does not conflict with concession rights already granted to other parties. To this end, the government could enter into a contract with individuals or private bodies and such contract could be implemented after having been made legal by law. This article was able to stimulate private participation, and even more so after additional amendments had been made in 1918, stipulating that permits for exploration activities only would not require enactment by law. It was this article that inspired us, the members of Committee for the Formulation of the Indonesian Mining Law in 1966, to work out foreign investment in the mining sector along the same pattern.

According to Ter Braake (1944), by the end of 1938 the number of mining concessions and permits, including those issued for oil, totaled not less than 471. But compared to India, the Philippines, and Australia, the developments of mining in the Netherlands Indies was lagging far behind,



and this late development resulted in substantial financial loss. Some of the new mines that began operating in the 1930s, such as the gold mines at Bengkalis, Cikotok and Woyla, the bauxite mine at Bintan, and the Pomalaa nickel mine had not yet reached their peak of production when the Dutch surrendered to Japan.

The extent of mining development in the Netherlands Indies can be concluded from the 1940 mineral production figures taken just before the outbreak of the war in the Pacific when everything was still normal. The following are production figures of some of the most important commodities: coal, 2,000,680 metric tons; tin, 43,890 metric tons; gold, 2,801 kg; silver, 46,641 kg; bauxite, 275,220 metric tons; nickel ore, 55,540 metric tons; and manganese ore, 11,570 metric tons. By looking at those figures, R.W. van Bemmelen, a well-known Dutch expert in geology and mining, wrote the following lines (R.W. van Bemmelen, 1941, *Delfstoffen van Nederlandsch-Indie als Grondstoffen in the Inheemse Industrie*):

"... Uit dit staatje blijkt dat Nederlandsch Indie slechts een bescheiden producent van delfstoffen is. De eenige troefkaarten op de wereldmarkt zijn aardolie en tin, terwijl bauxiet en nikkelertsen speciaal voor verhoudingen in Oost Azie van beteekenis zijn ...".

Or in English,

"... From this table it appears that the Dutch East Indies was just a modest producer of mineral commodities. The trump cards in world market were only petroleum and tin, whereas bauxite and nickel ores were of importance only in respect to East Asia ...".

The prospects of gold were particularly dim, according to the Dutch experts. Tens of gold mines that were started at the beginning of the 20th century in the Nether-

lands Indies ended up with great losses and bankruptcy. There were only two mines, Rejang Lebong and Simau, both near Bengkulu in the southwestern part of Sumatra that proved profitable. It was this fact that made Ter Braake in (1944) quote Curle "... [that] the gold mining industry has come to stink in the nostrils of many thousands of people ..."; then added his own remark "... and gold mining in the Netherlands East Indies surely has shared this reputation ...".

Similarly one could detect a disappointed tone in Van der Ploeg's writing in (1945); "... Over het algemeen zijn de Indische goud -- en zilvermijnen na een vleug van bloei teruggevallen tot een kwijnend-bestaan, of zijn al eerder verdwijnen ..." (In English, "... In general, the gold and silver mines in the East Indies, after a flicker of prosperity declined to a languishing existence, or likely have vanished altogether ...").

In retrospect we may conclude that the outlook of the Mining industry during the Dutch East Indies colonial period was none too bright. Also, the results of geological survey and the mineral exploration was meager.

The *Dienst van het Mijnwezen* (Mining Service), in addition to performing geological and mine exploration had also initiated systematic geological mapping, but this project was suspended before the outbreak of World War II as a result of the depression in the early 1930s which affected the whole world. By that time, geologically only five per cent of the country was covered by systematic mapping, 75 per cent by reconnaissance mapping; and



the remaining 20 per cent was unknown territory. Obviously, it is for this reason that Dutch experts at the time did not dare to forecast a bright future for the mining industry in this country.

### The 1942-1949 Period

The surrender of the Netherlands Indies Army to the Japanese forces on March 8, 1942 marked the end of colonial Dutch East Indies. When the Japanese invaded this country, not all of the mines were reduced to rubble by the Dutch. Some of the mines that produced commodities that were of use to the war effort were reopened by the Japanese.

In comparison to what had been done by the Dutch, the efforts by the Japanese to develop the mining industry of the country over the three and a half years during war was indeed remarkable. Their exploration activities yielded some new mineral discoveries and a number of coal mines were opened. They also tried to find new minable deposits and to open up new mines to develop copper and iron ore, cinnabar, manganese ore, and bauxite. However, all of these efforts were based on a war time economy and by using forced labour.

In August 1945 the war came to an end, but in Indonesia it was followed by the country's fight for independence, a struggle that lasted until 1949. During that time not much could be done in the field of geology and mining.

The Mining and Geological Service of the new republic had to move from Bandung to Yogyakarta. In the meantime, the

Netherlands Indies Civil Administration, NICA, took over the office in Bandung and reestablished *Dienst van het Mijnwezen*, and rehabilitated some mines outside Java.

When in 1949 the Dutch recognised the sovereignty of the new republic, the Mining and Geological Service was moved back to Bandung. Then the agency was split into two departments the Geological Survey of Indonesia and Mining Service with their headquarters in Bandung and Jakarta respectively.

### Developments in the Period of 1950-1966

The developments in the field of geology and mining in Indonesia during the period of 1950-1966 cannot be separated from the political developments which were characterised by tension and social turbulence. There were uprisings in a number of areas. The Constituent Assembly, called forth to write a new constitution, was unable to complete its task. Then, on June 5, 1959, President Soekarno issued the decree "Back to the 1945 Constitution". The liberal political atmosphere came to an end, and in its place came "guided democracy", which was followed by "guided economy". Along with the deterioration of political conditions, the economy of the country was worsening. This situation continued until the political upheaval of the years 1965-1966.

After the transfer of sovereignty from Holland to Indonesia, the supervision of mining enterprises which were still dominated by Dutch and other foreign capital became a sensitive political issue. In



June 1951, Teuku Mohammad Hassan, a member of the Provisional Parliament, together with a number of other members issued a motion, urging the government to take steps in order to straighten out the control and regulation of the mining sector. Among the issues to be tackled by the government were the following: (1) within one month, to set up a Committee on Mining whose task shall be -- in the shortest possible time -- to make an inventory of the petroleum industry, the tin, coal, and gold and silver mining, and other activities in this field in Indonesia; (2) to make preparations to draft a state of the art mining law; and (3) to postpone the issuance of new mining concessions, permits for exploration, and agreements for extension of expired permits, awaiting the outcome of the Committee's work.

On account of the ever-changing cabinet, the government was not able to submit the draft of a new mining law to the Provisional Parliament. Of importance was the promulgation of Law no. 10 of the year 1959, on the Nullification of Mining rights. This law stated that all mining rights issued before 1949, when no follow-up was present, either in the form of mine workings, resumption of activities, or were still in a preliminary stage, are subject to nullification. Although the political climate was not conducive, the government was able to issue Law no. 78 of the year 1958, on Foreign Capital. But as far as the mining sector was concerned, this law did not present any opportunity whatsoever. Article 3 of this law states that foreign capital is explicitly excluded from the mining of vital minerals.

In 1960, the government promulgated Law no. 37 of the year 1960 on Mining, which was actually a government regulation in substitution of Law. The government was also trying to attract foreign capital to develop the mining industry on the principle of production sharing, patterned along the lines of Presidential Decree no. 20 of the Year 1963. This effort, however, failed to encourage private interest.

With the worsening of the country's economy, the mining sector, too, was sinking deeper in the dumps. The existing regulations did not espouse the development of the mineral potential of the country, thereby causing prolonged hardship. Worst still, while Indonesia isolated itself during the 1950s to the 1960s, elsewhere in the world there was a boom in mineral exploration, resulting in the discovery of huge deposits of bauxite, iron, manganese, and copper ores, and other mineral commodities. World demand for mineral commodities was escalating and new mines were opened up.

In the period of 1950-1960, with foreign assistance, some exploration activities were carried out by the government. Among the steps taken were the searches for iron ore and coking coal in Kalimantan and Sumatra in the framework of the Iron and Steel Project, and the investigations for rock phosphate and sulphur for the Superphosphate Project. These activities yielded a large amount of data on geology and related matters. Limited funds, however, prevented the government from undertaking more intensive mapping and mineral exploration work.



## A New Episode in Economic and Mining Policy

The worsening of the political situation in the 1960s ultimately led to the great political upheaval by the end of 1965 which lasted until early 1967. MPRS, *Majelis Permusyawaratan Rakyat Sementara*, the Provisional People's Advisory Assembly, in its session in mid-1966 was able to pass Decree no. XXIII/MPRS/1966 on the Renewal of Policy regarding to the Economic, Financial, and Development Base of the country. Among the points are the following:

- All potential wealth of Indonesia's natural resources shall be developed and processed so as to create real economic capability (Chapter II, Section 6);
- Foreign capital, technology and expertise may be called into use to counter the economic and construction decline of Indonesia (Chapter II, Section 10);
- Realising the limited amount of domestic capital, a law on foreign and domestic capital shall be promulgated as quick and possible (Chapter VIII, Article 62).

The above MPRS's statement was indeed very appropriate to be directed to the mining sector, though the content could not be implemented without prior revision of the 1960 Mining Law. Realising the urgency, the then Ministry of Mines imme-

diately formed the Committee for Drafting a Mining Law.<sup>1</sup> The committee was able to file a draft to parliament by mid-1967.

Subsequent to the promulgation of Law no. 1 of the year 1967 on Foreign Investment, Law no. 11 of the year 1967, was issued, which henceforth is known as Law on the Basic Provisions of Mining of the year 1967.

With regard to foreign investment in the mining sector, Article 8, Point 1 of Law no. 1 of the Year 1967 states:

"... Foreign investment in the mining sector is to be based on cooperation with the government, on the basis of a contract-of-work, or in another form, conform with the prevailing regulations ...".

The same matter is outlined in Article 10, Paragraph 1 through 3, of Law no. 11 of the Year 1967, as follows:

1. The Minister of Mines may appoint a third party as a contractor, in the event the work cannot yet be performed by the government agency or state enterprise which holds the mining authority;
2. In concluding an agreement with a contractor as stipulated in Article 1 of this paragraph, the government agency or state enterprise concerned shall adhere to the guidelines, directives, and conditions as outlined by the Minister;
3. Said contract-of-work in Article 2 will be effective after approval by the government following consultation with parliament, insofar as this concerns development of deposits belonging to group a, as stipulated in Article 13 of mentioned law, and/or contract-of-work involving foreign capital.

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<sup>1</sup>It was a great honour for me to be appointed chairman of this committee, after which I had to chair the Technical Committee on Foreign Cooperation of the Ministry of Mines, a position I held until 1973. This committee handled foreign investments in the mining sector, and succeeded in the formulation of the so-called Contract-of-Work concept.



At the beginning, prospective foreign investors needed deliberate briefing on the principles of contract-of-work or C.O.W. agreement, or in Indonesian, *Kontrak Karya*. At first, it was difficult for potential investors to accept the concept of the omission of concession and property rights on the eventual discovery of mineral deposits in the event of successful exploration. Hesitation on the part of prospective investors with regard to the legal certainty while running their business was understandable, as Indonesia at that time had no track record in handling foreign investment projects.

As cursorily mentioned before, the formulation of Article 10 of the 1967 Law on the Basic Provisions of Mining was inspired by the fashion of Article 5a of the Netherlands Indies Mining Law. There is some similarity between the C.O.W. in mining and the 5a contract pattern, even though C.O.W. stipulates more comprehensively the various aspects of technical, financial, tax, labour, environmental and legal matters, and also those of general interest, things that hold good for the period of the project. C.O.W. also renders contractor the so-called conjunctive title, *i.e.*, right to perform consecutive activities, starting with survey-exploration to development-processing and marketing of the final product in the form of mineral commodity. Very attractive to private investors is the way government handles C.O.W. in the mining sector as being a case of *lex specialis*. As such, all terms stipulated in the contract would not be subject to changes with changing government regulations. This provides legal security for investors. Remarkably a foreign

investors, C.O.W. in the mining sector is "a cradle-to-grave-contract".

Since 1967, government financial and tax policy were changed several times. Along with the changes, C.O.W. in the mining sector had undergone modifications. Up to 1995, there have been five generations of C.O.W.'s.

In coal mining, however, the regulation in force since 1981 until 1995 is known by the name of *Kontrak Kerja Sama Pengembangan Pertambangan Batubara*, or abbreviated *KKS Batubara* (Cooperation Contract in the Development of coal Mining). The name was then changed to *Perjanjian Kerja Sama Perusahaan Batubara (PKP2B)* (Agreement to Cooperate in the Development of Coal Deposits). Whereas in the case of C.O.W. in mining the principal is the government, the principal in KKS Batubara and PKP2B was originally the state coal company P.T. Tambang Batubara which was later changed to P.T. Tambang Batubara Bukit Asam, the body that holds the *Kuasa Pertambangan* (or Mining Authority). In accordance with the terms of KKS Batubara or PKP2B, it is stipulated that contractor shall surrender 13.5 per cent of its produced coal to the principal, but is further exempt from production levies or royalties.

Government's policy to attract foreign capital in mining proved to be a big success. Only three months after issuance of Law no. 1, of the Year 1967 was it able to make Freeport Indonesia Inc., sign the first C.O.W. agreement. Then, subsequently, in the period of 1968-1972, 16 foreign mining companies followed suit. Included are both large companies, such as Aluminum



Company of America, International Nickel, and US Steel, and smaller ones. We may thus say that the concept of contract-of-work as a product of Indonesian law has been firmly accepted internationally ever since. This applies also to Cooperation Contract in the Development of Coal Mining which was signed for the first time in 1981.

Participation of a large number of foreign mining companies, particularly since the beginning of the 1980s, escalated activities in geological and mineral exploration in Indonesia. With the exception of the islands of Java and Bali -- for environmental and demographical reasons -- metallic mineral exploration has virtually covered the whole of the archipelago. Exploration for coal has been restricted to the eastern and southern parts of Kalimantan and central and southern Sumatra.

As stipulated in contract, contractors are required to file to the government a copy of their map and geological reports upon com-

pletion of their surveys. The accumulated material so far from surveys and research by various government agencies, state and private companies, has enabled us to obtain a comprehensive picture of the geology and mineral wealth of Indonesia.

## Geology and Mineral Potential of Indonesia

The earth's crust underlying the Indonesian Archipelago has long fascinated earth scientists, particularly tectonicists. The Island arcs and volcanic belts swirling in parallel between the Asian and Australian Continents and the Pacific and Indian Oceans, reflects a mountain range in nascent. Scientists agree that in this archipelago there exists an intimate relationship between vulcanism, seismicity, tectonics, and the presence of deep throughs in the ocean floor.

Among the earlier hypotheses on the structural setting, Smit Sibinga's specula-

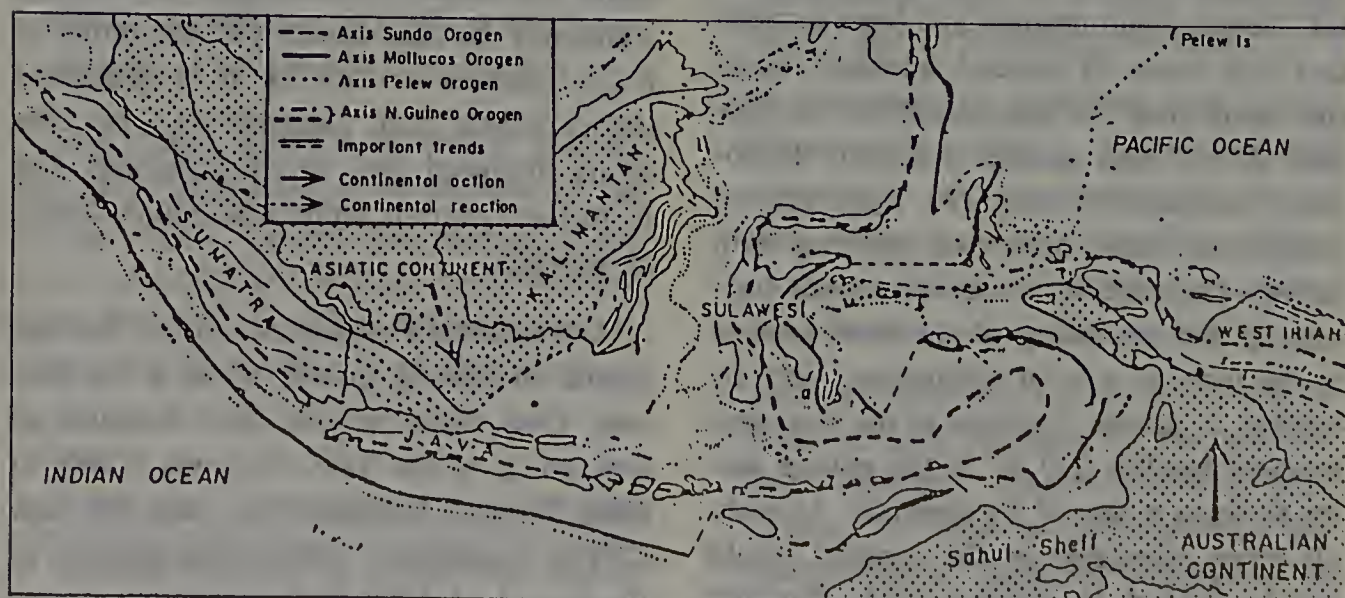


Figure 1. Structural map of the East Indies (after Smit Sibinga, 1933)



tion (1933) deserves our attention. He was a proponent of the continental drift theory. The concept underlying his hypothesis is certainly not refrained from his supposition. Basically, the theory of continental drift assumes that the rigid crust constituting the continents in reality is not fixed, rather, that it is drifting on heavier material, a type of rock in a liquid-solid state because of the high temperature.

In his structural map, Smit Sibinga depicts four large orogenic zones: the Sunda, Maluku, Palau, and New Guinea Orogens respectively (Figure 1). It is interesting to note that the complex structure of the eastern portion of the archipelago is described as being the result of Australia's drift and action toward the north which brings about a reaction from the Asian Continent.

Even though it was discovered later that this theory is not supported by the results

of more modern research, -- at least for part of the structural delineation of Indonesian archipelago -- it still provided a useful working hypothesis from which exploration researchers could use to approach mineral exploration in this region. Westerveld was among the earlier workers who pioneered the concept of mineral exploration by using a regional tectonic approach. In his article *Fasen der Gebergtevorming en Ertsprovincies in Nederlands Oost-Indie* (Phases of Mountain Building and Ore Provinces in the Dutch East Indies) (1949), he outlined four orogenic zones in his tectonic map, and their respective specific mineralizations (Figure 2). First, the Malaya Orogen of presumably Late Jurassic age is characterized by its tin ore (cassiterite), gold, and bauxite contents. Next, the Cretaceous Sumatra Orogen which contains metasomatic iron ore and gold and silver-bearing base metals in Sumatra, and lateritic iron ore and alluvial

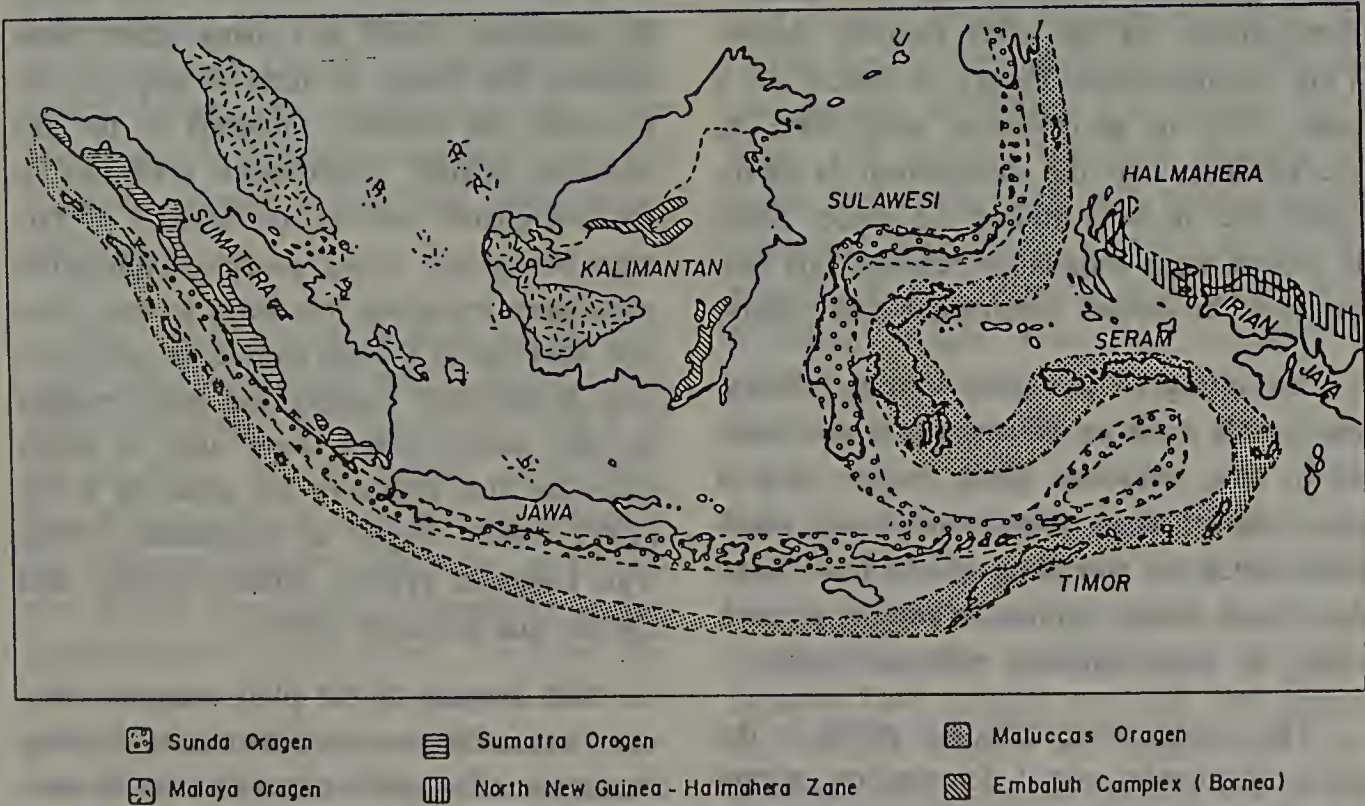


Figure 2. Tectonic scheme of the East Indies (after Westerveld, 1952)



gold and diamonds in Kalimantan. Further, the Middle Miocene Sunda Orogen has resulted principally in the formation of epithermal iron, silver and manganese ores. Lastly, the Cretaceous to Middle Miocene Moluccan Orogen contains nickel silicate and lateritic iron ores as a result of the weathering of peridotitic rocks. Beyond those zones, in the western part of the archipelago, are epithermal gold and silver and Sb-Hg mineralisations which are associated with Tertiary and Quaternary volcanic activity. The mountain range of northern Irian Jaya is tectonically linked to the island of Halmahera; this belt contains iron and nickel laterite ore.

Westerveld's hypothesis appeared to be inappropriate in certain respects, however, for a time it proved to be a very useful tool as a guide for exploration geologists.

Then, in the early 1960s, came the theory of new global tectonics, which later became more known as the plate tectonic theory. This revolutionary theory is based on a huge body of geophysical data, data on the seafloor, and the distribution of earthquake foci in belts around the globe. There is indeed some semblance between this theory and the earlier continental drift theory.

According to the plate tectonic theory, the earth's crust or lithosphere is not formed by one unbroken plate, rather, that is made up of large plates and many small ones which are travelling all the time, away from each other, sliding in respect to each other, or even colliding with each other.

The zones along colliding plates is the place of intense crustal deformation, giving rise to the formation of folded mountain

ranges, metamorphism under high temperature and high pressure at the root of the mountains, fusion along subduction zones and associated with granitic intrusions and andesitic vulcanism along the upducted zone. This magmatic activity may give rise to mineralisation. The same happens in the case of seafloor spreading whereby ultramafic magma is extruded.

Using the plate tectonic theory as a basis, an array of tectonic and complex structural phenomena may be explained more easily and more logically. Pioneers that applied this theory to elucidate the geological structure of the Indonesian archipelago are Hamilton and Katili.

The Indonesian Archipelago is a region where three megaplates are interacting: the Indian Ocean-Australian (Indoaustralian), Pacific, and Eurasian plates respectively. Using this theory, the distribution pattern of mineralization in Indonesia can easily be explained. Katili and many others have applied this theory in their concept of exploration for metallic minerals in the Indonesian region. Exploration activities in the last quarter century, particularly by foreign companies, using modern exploration techniques including this latest tectonic theory, have led to a large number of new mineral discoveries. Among the many papers on this matter which were used as references for this summary are those by Katili (1975, 1992), Taylor & Hutchison (1978), Van Leeuwen (1991), Sillitoe (1994), and Carlile and Mitchell (1994).

With respect to the plate tectonics theory, basically two environments for the formation of metallic minerals may be distinguished. *Firstly*, those connected with



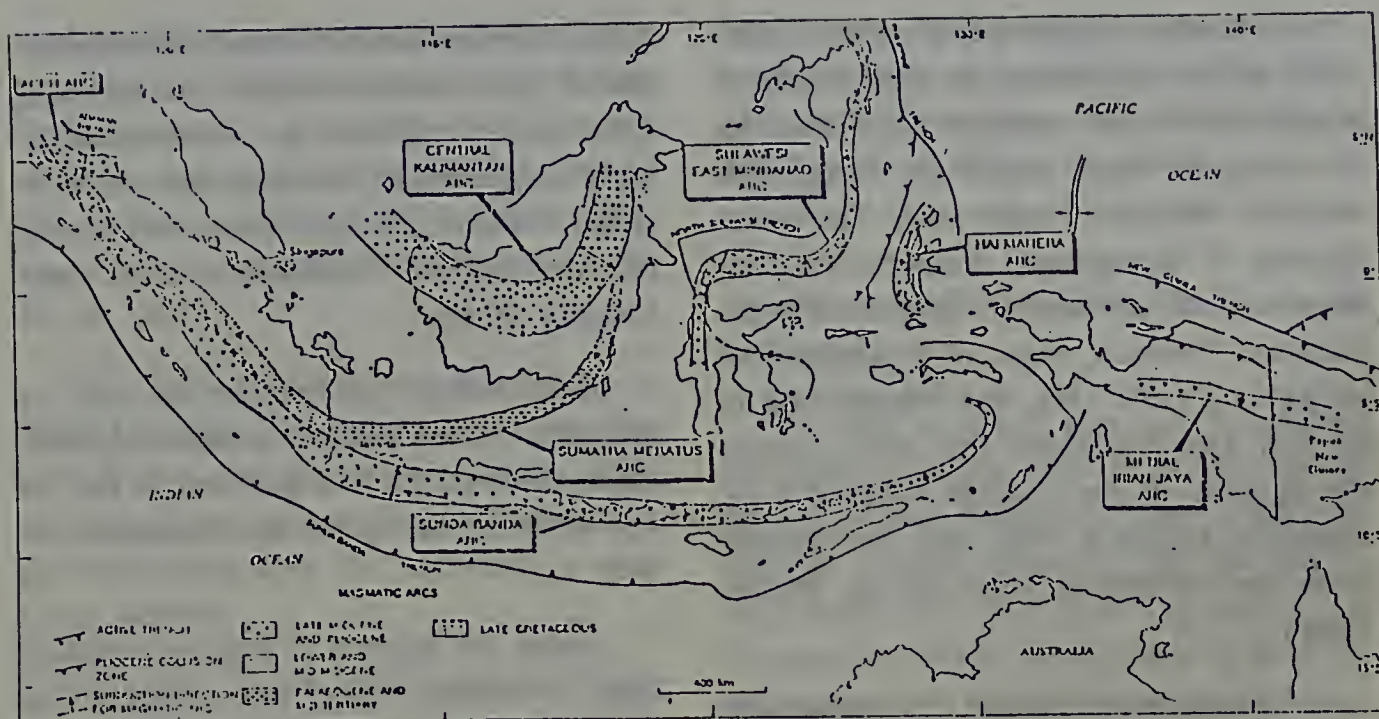


Figure 3. Mineralized Late Cretaceous to Pliocene magmatic arcs in Indonesia (after Carlile & Mitchell, 1994)

rocks formed in oceanic basins and in island arcs, and *secondly*, those related to continental rocks, the latter usually granites derived from lithospheric material. In this connection it is interesting to take notice of the map by Carlile & Mitchell (1994) which depicts the extension of the Late Cretaceous to Pliocene magmatic arcs in Indonesia (Figure 3) and their related mineralisation.

The Central Irian Jaya magmatic arc contains porphyry copper mineralisation with gold and silver, an example of which is the Grasberg deposit. Similar mineralisation is found in the area of Tambulilato in the Sulawesi-Eastern Mindanao magmatic arc, and at Batu Hijau in Sumbawa in the Sunda-Banda magmatic arc. All these discoveries point to a large potential for porphyry-type mineralisation, and it is not impossible that there will be other important discoveries of this type in the future.

Epithermal gold deposits are found in the Sunda-Banda magmatic arc, as shown in the discovery at Pongkor in West Java and on Wetar Island in Eastern Nusa Tenggara (Lesser Sunda Islands). Further, the Central Kalimantan magmatic zone with the gold deposits of Masupa Ria, Kelian, Bukit Muro, and Busang. All these deposits indicate that epithermal gold mineralisation connected with Upper Tertiary volcanism appears to be far more widespread than previously thought. Also, that secondary or alluvial gold deposits are very numerous, distributed along valleys of streams flowing down from those magmatic arcs. Aside from the magmatic arcs is the plutonic arc which is running from the Asian continent by way of the Malay peninsula to the islands of Bangka and Belitung. This presumably Late Jurassic arc that was named the Malaya Orogen by Westerveld contains the richest cassiterite deposits in the world.



The lateritic nickel ore of eastern Indonesia whose distribution is very extensive is derived from the weathering and leaching of ultramafic rocks which are inseparable with the subducted Pacific crust. The nickel deposits of Southeastern Sulawesi are connected to the subduction zone in Eastern Sulawesi Province; those of the islands of Halmahera, Gebe, Gag, and Waigeo have to do with the Halmahera Province, whereas the deposits in the Cyclops Mountains on mainland northern Irian Jaya are derived from the subducted crust of the Pacific Ocean.

Of importance also are the bauxite deposits of western Indonesia. They originate from the weathering and leaching of Al-rich metamorphic and plutonic rocks. They are rather widely distributed in the Riau Archipelago and West Kalimantan.

In addition to the above-mentioned ore deposits are the coal deposits. They are found in large quantities, particularly in the southern part of Sumatra and eastern Kalimantan. Coal deposits are currently drawing big attention from entrepreneurs. Indonesian coal deposits of economic value are all of Tertiary age. Eocene coal is generally of bituminous to subbituminous grade, deposited in swampy areas during the early phases of transgression. The lower grade Miocene coal is probably derived from deposits in deltaic environment during the later phases of regression. The material is mostly still lignite, and only some is subbituminous in character. Local metamorphism may cause the coal to be ameliorated and become bituminous or even anthracitic.

From the point of tectonics, three types of coal basins may be distinguished in Su-

matra, namely, fore-arc basins, intermontane basins, and back-arc basins. In all these three basins coal may be accumulated in fairly large amounts. Examples are the Meulaboh, Ombilin, and Bukit Asam coal basins; the first two are Paleogene and the third Neogene in age.

In the underlying lines an overview is presented on the mineral potential of Indonesia, based on the data gathered so far. As can be seen, the figures are impressive indeed.

Copper ore reserves of Indonesia totalled some 32 million metric tons, mostly of the porphyry type, the largest probably being the Grasberg deposit in the high mountains of Irian Jaya which is probably also the richest in the world because of its high gold and silver contents.

The indicated amount of gold potential is currently some 3700 metric tons, both primary and alluvial. Virtually, gold is found in all the large islands of Indonesia, but most probably the largest deposits is the just mentioned at Grasberg which figure is estimated at 2700 metric tons.

Lateritic nickel ore in eastern Indonesia is found in a number of places, with a total reserve of some 1000 million metric tons, making up a total Ni-metal content of around 13 million metric tons.

Tin ore has been mined for more than two centuries. The tin islands and the surrounding seas still contain another 600,000 metric tons or so tin metal.

In addition to the known bauxite deposits on Bintan and neighbouring islands, the recent explorations have indic-



ated additional deposits in West Kalimantan. The low-grade bauxite deposits of West Kalimantan with an average Al<sub>2</sub>O<sub>3</sub> content of 30 per cent is estimated at some 1.3 billion metric tons, of which 800 million metric tons have an average Al<sub>2</sub>O<sub>3</sub> content of 40-43 per cent.

The gross potential coal reserve is estimated at about 36.5 billion metric tons. For a large part, the material is lignite, while the remainder belongs to subbituminous and bituminous coal, and anthracite in very minor amount.

From the figures presented above we may conclude that Indonesia has an impressive potential of metallic minerals and coal. Not included are non-metallic materials (or industrial minerals), such as limestone, marble, dolomite, quartz sands, kaolin, various sorts of clay, and rocks such as granite, syenite, and peridotite. It is true, indeed, that this country does not possess all the minerals man needs but no country in the world does. The aforementioned

figures attest to the fact that Indonesia certainly belongs to the haves of this world with regard to mining, although mining in this country is still in its infancy.

Awakening of the Mining Industry in Indonesia

We have to admit that the tremendous development in the mining industry of Indonesia at this moment is due to the presence of foreign companies. By the end of 1995, there were 132 C.O.W.'s in mining and 10 contracts for the development of coal. Of that amount, 11 C.O.W.'s are already producing, one is in the construction stage, 24 are still completing feasibility study, eight are in the survey-exploration stage, and 88 have suspended activities on account of uneconomic deposits. As regards coal, among the ten projects, eight are currently producing.

So far, the success ratio in mining is still low; less than ten per cent are successful. In

Table 1

PRODUCTION FIGURES OF MINING COMMODITIES, 1940, AND 1994 AND 1995<sup>\*)</sup>

Mining Commodity	Unit	1940	1994	1995
Coal	Kgtons	2,000,680	31,951,073	41,710,385
Tin	Kgtons	43,890	31,100	44,218
Gold	Kg	2,801	42,612	62,698
Silver	Kg	45,641	107,026	263,694
Bauxite	Kgtons	275,220	1,342,402	904,459
Nickel ore	Kgtons	55,540	2,311,510	2,513,394
Nickel in matte	Kgtons	-	45,325	45,463
Ni in ferronickel	Kgtons	-	5,745	10,735
Cu concentr.	Kgtons	-	1,085,468	1,510,257
Fe sands conc.	Kgtons	-	334,895	348,371

+ ) Non-metals not included

\* ) Preliminary figures

Source: Directorate General of General Mining



spite of all, what has been achieved in mining in Indonesia is very impressive indeed. This may be seen from the table below which shows production figures from colonial Dutch East Indies, right before the outbreak World War II and those of the last two years.

The most important mineral commodities produced since the 1970s are copper concentrate, nickel matte, and feronickel. As can be seen from the table above, the 1990s may be considered the decade of Indonesia's awakening in mining. Before the war, this country was known as the world's no. 3 or no. 2 producer of tin. At his moment, Indonesia's role in the mining world is much more prominent. Indonesia now ranks third among the stream coal exporters in the world, fifth among the nickel producers, and minth among the gold producers. If the expansion of the workings at Grasberg are completed by 1997, Freeport will be the second largest copper producer in the world.

Among the latest developments the most dramatic is the surge in coal mining. From an industry that was nearly shut down in the 1970s, it has emerged over the last ten years into a new giant. In 1973, the figure of coal production was a mere 148,000 metric tons, but by 1994 it was up many times to reach nearly 32 million metric tons, and the figure is expected to reach nearly 39,3 million metric tons in 1995.

As stated above, today Indonesia's mining industry has reached world-class status. In comparison with its land area of 1,900,000 sq. km., however, the number of mines in this country is still too small. This is apparent from a glance at map Figure 4 which shows the distribution of the major mines in Indonesia. Sulawesi, for example, whose land area is 180,216 sq. km. and with obviously significant mineral potential, has but two operating mining companies. This is even more evident in Irian Jaya whose land area is even larger, 416,129

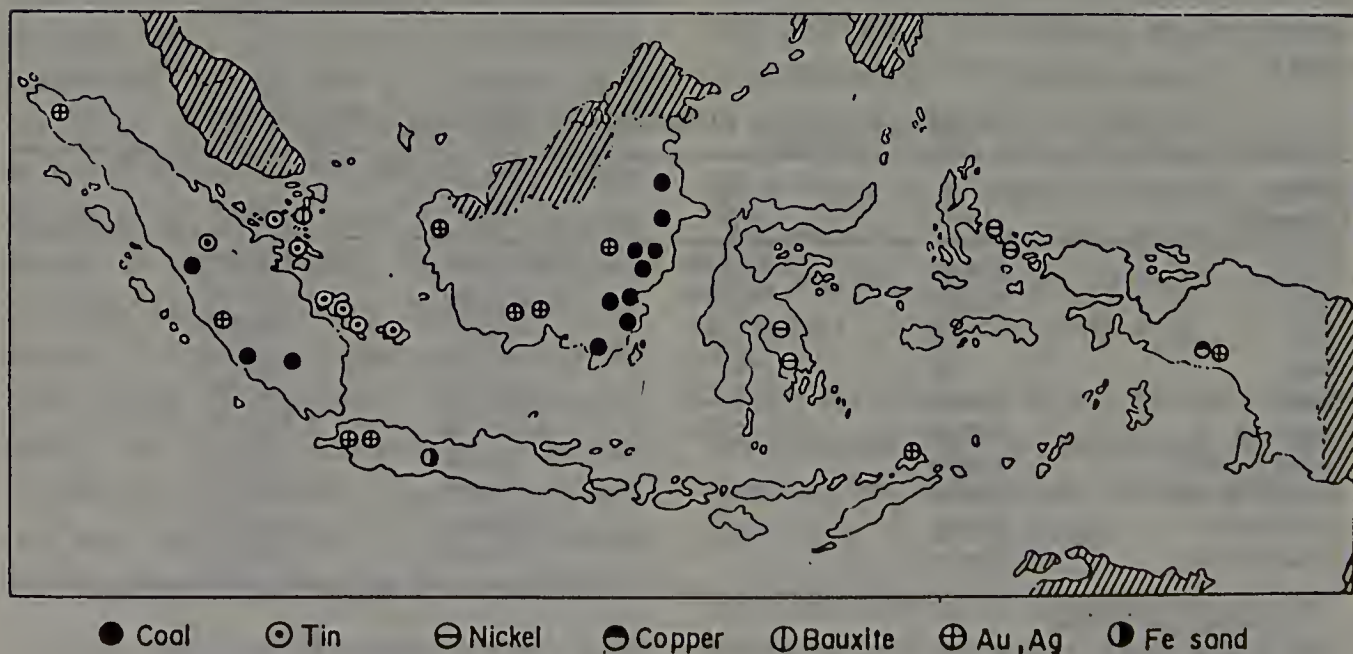


Figure 4. Location of major mines in Indonesia



sq. km., with only one operating mining company, while its mineral potential is obvious by the presence of the Grasberg mine and adjacent areas, and also by the large operating mines beyond the border in Papua New Guinea.

Official reports indicate that by the end of 1995 there were only two state-mines producing metals, the State Tin Mines and P.T. Aneka Tambang and 11 foreign or joint-venture companies working under the C.O.W. agreement, producing copper, nickel, tin, gold and silver. With regard to coal, in addition to the state-run Bukit Asam mine, there are currently six national Indonesian and eight foreign or joint-venture companies operating as contractors. Not included are a number of small private national Indonesian companies, co-operatives, and so-called people's mining which are developing coal or precious metals. Their workings are small, however, and more over are very irregular. Also not included are the figures of quarries for non-metallic materials (industrial minerals) with their working scattered all over the territory of Indonesia.

It is acknowledged that at this moment the largest part of Indonesia's mining commodities is produced by foreign companies. In 1994, all of the copper concentrate and nickel matte, about 93 per cent of the gold, about 89 per cent of the silver, 25 per cent of the tin nearly 70 per cent of all the coal were produced by foreign companies. In

the last ten years, however, more and more Indonesian nationals are showing interest in mining and have started investing capital in the mining industry, solely or with foreign partners.

### Concluding Remarks

After years of slow development, at one stage even becoming stagnant because of the poor investment climate, there was a surge in exploration activities and the blossoming of mining business in the last quarter century. With this enormous development in mind, the 1990s may be aptly called the decade of the awakening of Indonesia's mining industry, even though it still is considered to be in its infancy.

Whereas before the Pacific war (1941) the mining commodity *par excellence* produced by the Dutch East Indies was just tin, today Indonesia's main mining commodities include copper, nickel, tin, gold, coal, and bauxite.

Indonesia's experience during its 50 years of independence has provided a very useful lesson, *i.e.*, that growth and development of a country's mining industry are determined not by its mineral potentials, however big they may be, but rather, by the policy of the government in creating the right business climate to encourage investment.



# Labour and Women in Java: A New Historical Perspective

*Peter James Hancock*

## Introduction

**N**ITISASTRO (1970; 1) claims that between 1600 and the 1970s the recording of Indonesian history has been treated from a "European-centred outlook" which has focussed almost exclusively upon Dutch colonial evaluation (Eurocentricity). The printed history of Indonesia has tended to be either pro-Dutch (see Broek, 1942) or anti-Dutch (see Raffles, 1817) and mainly written by high level foreign officials, European educated academics or philanthropists, most of whom were middle-class and male. Indonesian history needs to be re-evaluated, especially of those groups most hidden by history, such as industrial labour and women. This paper will focus its attention on labour and women's roles in the economic development of Indonesia from the 1830s. More specifically, the paper re-analyses the involvement of these two hidden factors in Indonesia's economic history, especially in its most

important manufacturing sector, textiles. However, the paper only provides preliminary discussion about aspects of Indonesian history which have been misrepresented or forgotten, and at the same time addresses some very serious misconceptions about Indonesia and its capacity to develop successfully. Hopefully, the paper will lead to increased discussion about Indonesia's industrial history, which, this paper strongly suggests, is in need of re-evaluation.

This research relies on Dutch census data of the 19th and early 20th Centuries and relevant labour data from colonial administrations and the contemporary Indonesian state. Secondary historical sources are also used, but only after critical scrutiny and regard for evidence of Eurocentric bias. This paper will show that many of the assumptions relating to the industrial development of Indonesia need re-evaluation, especially those which led to the belief that Indonesia would not be able to



develop without the aid of the West. Further, the paper argues that the status and position of the contemporary work force in Indonesia are predominantly historically grounded. They are deeply embedded in the nation's economic culture, a culture which was predominantly not indigenously developed and which was well entrenched long before the 1970s.

Mehmet (1995) argues that modernisation, with its focus upon contemporary urban-based capitalist development, missed the very important relationships between historical and agrarian developments and successful industrial development. Demographic, agrarian and economic developments in Indonesia, and especially in Java, were the most crucial precursor to its capacity for successful export-led industrial development in the 1970s. Furthermore, the development of rural infrastructures were significant to the successful export-oriented phase of industrial development in Indonesia, as they were in Taiwan, South Korea and Malaysia. Dutch attempts to industrialise Java in the early 20th century were based upon assumptions very similar to modernisation. However, like the modernisation theorists of the 20th Century, who viewed nations with large rural economies as incapable of modern development by themselves, the Dutch too misjudged the ability of Indonesians to successfully develop, partly because the history of Indonesia has been so biased that mis-interpretation was inevitable.

### **Eurocentric History**

Very complex indigenous economic cultures existed in Indonesia before the

Dutch arrived. These were obviously meshed with Dutch systems after they consolidated their position as colonisers. Nevertheless, it is inconceivable to assume a European style of industrial development could be completely transported from Amsterdam to Jakarta.

Eurocentricity is evaluated by Mehmet (1995: 8-10) which he describes as a quasi-racist world view resulting from the domination by the West of the non-European developing world. Eurocentricity is transmitted into history through Western education and media and, *while the term is itself a European-based value judgement*, it is important because many Eurocentric biases are evident in standard Indonesian histories (See Raffles and Broek). Eurocentricity led to simplistic theory such as Social Dualism (Broek, 1942) and the Nobel Prize winning Lewis Economy, both of which were formulated after economic research in Indonesia. Mehmet argues that post-colonial and Western-driven development plans failed due to a deeply distorted lack of historical understanding of the nations involved. This, combined with labour invisibility in history, resulted in research and policy lacking social and historical fit in Indonesia and most non-Western nations.

Alexander (1991: 56) provides evidence as to how Eurocentric history distorted understanding of contemporary Indonesia: He stated;

Both historical and contemporary studies of rural Java have usually treated the economy and society as if these involved exclusively agricultural activities and agrarian production relations. Although this inclination to agrarianise the country-side



characterises studies of many Third World countries, the tendency is particularly marked in conventional accounts of Java which represent it as epitomising a subsistence oriented rice-farming economy. Colonial administrators and subsequent scholars have consistently undervalued the significance of market relationships, trade and industry in the rural economy and this has distorted our understanding of Java's economic history, reinforcing views that it is a relatively homogeneous society essentially little affected by its long period of colonial rule. In contemporary Java at least half of rural incomes, in many cases a great deal more, is derived from non-agricultural work. This is not a recent development.

To add to the above, in 1940 Peter Sitsen, who was the Director of the Industrial Division of the Department of Economic Affairs in Batavia, stated (1940: 49) that ...

The Western entrepreneur, who ultimately took the initiative in production which was difficult from a technological viewpoint, was passing on his knowledge and experience to the Indonesian. Consequently, the Western entrepreneur always had to go on to even more difficult processes. Thus industrial growth was speeded up.

Sitsen is implying that Westerners had to always take the lead and bring the Indonesian out of their presumed economic limbo by changing their economic system to a European styled system. In reality, the initial attempts by the Dutch to set up their *superior economy* was a miserable failure and this was only improved by the extreme exploitation of the Indonesian people. Sitsen also claimed the rural population in Java was incapable of dealing with modern production methods. Sitsen blamed the massive

social problems in early 20th century Java, such as extreme poverty, over-population, famine and widespread illiteracy, on the inability of indigenous social structures to cope with Western notions of economic organisation. Sitsen's claims are remarkably similar to development theories of modernisation formulated later in the century and highlight the general European ignorance of the complex indigenous economic systems which existed in rural Java, and continue to exist, without the need for capitalist notions of market economy, productivity measurements or efficiency evaluation.

In the 1990s *Indonesianists* were still providing Eurocentric analyses of Indonesia's economic development. For example, Hill (1993) claimed that the period after 1966 was the only era of real successful economic development in Indonesia's history. Hill has fallen into the trap of assuming Western-styled economic development is the only successful way to develop. Further, Hill also claims 1966 was an historic break from economic stagnation of the past. Many problems are evident with such an analysis. Among these, is the fact that the Indonesian economy has gone through many periods of economic stagnation in its very long history, obviously followed by consolidation. By only tracing Indonesia's economic history from the 1960s, Hill has given too much credence to the export-oriented period of Indonesia's development, which has been viewed in isolation and has also helped to make invisible the successful development of many other forms of indigenous economic developments in Indonesia, which despite their relatively low



importance in terms of GDP, continue to be extremely important socially, culturally, personally and to women.

From a Marxist perspective, the development of a capitalist-manufacturing sector, as opposed to indigenous manufacturing sectors, occurs as extractive agricultural industry separates (through historical stages) into a large variety of production-specific industries. A social division of labour and eventually, an international division of labour is the result. This separation essentially makes the agricultural sector industrial, according to Lenin (1956; 1918). Marxist analyses of the historical development of manufacturing, despite its obvious shortcomings and bias, is used only to support the decision of this research to include the estate sector in colonial Indonesia as part of its industrial analyses. It has been often assumed that the estate sector in Indonesia is non-industrial, however, the estate sector must be included in Indonesia's industrial history and not separated from it as many historians have tended to do.

## Land and Labour

When and where market-oriented forms of labour control occurred in Indonesia's history is impossible to pinpoint. However, capitalist-like organisation of labour existed for many centuries in Java. In history, before the arrival of the Dutch, this classical situation was even more extreme due to the fact that land, as a means of production, did not exist until the 19th century, and labour bore the brunt of exploitation as a commodity. Whether

peasants were working for feudal lords or the Dutch, they were basically controlled in the same way.

Between 1830 and 1930 most major land and labour acts were implemented in Indonesia by the Dutch. During the same period the value of exports from Indonesia increased from 107 million guilders to 1,160 million guilders per annum. Control of land and labour equalled huge profits for the Dutch (Legge, 1977: 90). The 1830 *Cultuurstelsel* and the 1870 Agrarian Law were the result of pressure from Dutch investors in the Netherlands. These laws allowed the Dutch to lease land for long periods from a more liberal colonial government, and secure increased control of labour, and at the same time increase exports from Java and Sumatra on an unprecedented scale. After 1870 the influx of Dutch investment in manufacturing in Indonesia increased 1,000 per cent per annum due partly to the security created for investors via policy which achieved acceptable subordination of labour and control of public lands (Zainu'ddin, 1968: 133).

Broek (1942) supports 1870 as a key turning point in Dutch policy and the beginnings of modern economic development in Indonesia. After this date, many labourers and land-renters lost the ability to compete with European capital and a steadily increasing and ultimately large secondary work force was created. In this period a closely controlled formal economy arose in direct contrast to the larger informal economy. However, this only occurred in monetary terms and not in the size of the workforce, as it remains today. The agricultural sector and the informal



sector continue to employ a massive number of workers and continue to generate trade on an extensive scale, much of which is unseen.

However, Fernando (1993: 89) claims 1830 is the key turning point in the industrial development of Indonesia. He claims that with the introduction of *Cultuurstelsel* in 1830 traditional agrarian systems were changed forever, from basic subsistence production to households based upon agriculture, market economies and manufacture. Further, Fernando states that the population became quickly used to modern notions of economy, despite European predictions to the contrary.

## History and Industrialism

Dutch policy in Indonesia, and more particularly in Java, stifled significant sectors of industry until the early 20th century. As a result, Indonesia's industrial history reads very differently to that of Europe. Further, the Dutch completely ignored indigenous industry, which was highly developed, such as metalwork, jewellery making, cloth making, artistic creations and architecture. Artisans and craftsmen were highly proficient before the Dutch arrived, one only needs to look at the vast array of quality crafts available in Indonesia today to find evidence of this.

Allen and Donnithorpe (1954: 79) in their analysis of the relationship among capital, industrialisation and labour, state that labour relations in Indonesia in the 1830s were based upon, not only its strict

control, but also upon the factory unit as a capitalistic means of production. This sector needed large investments of capital and resources, combined with strictly organised labour (time and productivity), to promote development, as do modern production processes. Therefore, according to the above authors, the claim that Indonesia was not capable of industrialising until the 1930s is not entirely accurate. As outlined above, significant indigenous industry existed before, and continued to exist, in spite of the Dutch. Further, the factory unit in the plantation sector, and indeed the whole process of plantation-style industry, of which there were many thousands in Java in 1830, created a "capitalist-link" between the factory owner and Indonesian workers. Furthermore, most Indonesians were forced by the Dutch to grow crops for the plantation sector (*Cultuurstelsel*), such as coffee and sugar in this same era, again linking most to market systems. Wolf (1982) describes the 19th century plantation sector as highly capitalised corporate factories in the field. In these factories the position of labour was determined by a ever-increasing capitalist market and a global economy, as manufacturing is today.

## The Eurocentric Village

Hoadley attacks Eurocentric histories of Java, and uses the idea of the village to provide an example. According to Hoadley (1994: 161) prior to the introduction of coffee cultivation via *Cultuurstelsel* in the early 19th Century there is no evidence to support the existence of villages in Java in any significant sense. Yet Hoadley claims



that mainstream Indonesian history sees it differently. Furthermore, according to his research, in the 1700s, village labour was organised in units of 1000s by the centralised labour controllers or *Mantri*, for their regal masters. Land was not owned in the private and systematic sense, nor was there a class-based peasantry in Java, as there was in most of Southeast Asia in this period. Most histories of Indonesia portray the traditional village as self contained economic units devoid of outside political and economic influences. In 1815 Raffles provided salient evidence to the contrary even though he too supported the notion of the self-contained village.

Analyses of Raffles' Census data in 1815 reveal that the structure of the government in Java at this time was extremely complex, defying claims that Java was a relatively homogenous village-based society. For example, in the Priangan region of West Java, census data enumerated in 1815 counted 3,515 villages (Raffles, 1817: 248). However, the number of village heads enumerated in 1813 by Raffles in the same region was well over 5,000. Analyses of the definition of village head in British census methods reveals that this term included Principal Chiefs, *Bupatis*, *Tumenggungs*, *Patihs*, *Ang'ebas*, Petty Court Chiefs, *Radens*, *Demangs* and finally *Lurahs* or Heads of Villages (Raffles, 1817: 63). Many of these officials were associated more closely with a complex hierarchical bureaucracy, which merely included villages at the lower level.

The treatment of actual village heads also contradicts the ideal that the village

in Indonesia is a mystical institution which has held society together for thousands of years and also demonstrates the cruelty of the Dutch. In 1851 a Dutch official named Vitalis was charged with enforcing *Cultuurstelsel* in West Java. On arrival at a factory in central West Java, he found ten Village Heads, who had had their thumbs tied with ropes which were then tied to trees, suspending them in mid-air. They were being punished by factory owners for not supplying enough labour from their respective villages. However, when Vitalis investigated he found that the Village Heads had actually supplied the required manpower to the factories, and most had supplied more than they were supposed to. In a another district of Priangan Vitalis found more Village Heads lying naked in the sun with arms bound, again accused of not supplying enough labour (Vitalis, 1851).

According to Vitalis *Cultuurstelsel* was very harsh in the Priangan region in central West Java. He claimed in this region, especially in factories, that it was common "not to meet people, but walking skeletons", to see many dead bodies by the roadside and the labourers in the plantation sector dropping dead as soon as they had eaten. The regent of the area did not even bury the dead, they were food for his tigers (Vitalis, 1851). Today the village continues to supply Indonesia with most of its labour for factories. However, the above evidence suggests that the notion of the village as an isolated unit was a creation for economic and census purposes by the British and Dutch, essentially to enhance their exploitation of human labour and village lands.



Compulsory labour (*herendiensten*) was introduced in 1854 to aid in the production of Dutch exports, for public works and for the benefit of indigenous elites. Dutch colonial policy was formulated and implemented on the basis that control of manpower was linked to political stability and increased productivity. *Cultuurstelsel*, *herendiensten* and scores of other labour laws supplied the Dutch with hundreds of millions of labourers between 1830 and the 1920s. The majority of these labourers were younger men taken from agrarian production, whose positions were filled by other family members.

New labour laws were tabled in a number of important acts in the 19th century. In 1818, 1827, 1830, and in 1836 the Slavery Regulation Acts were introduced, followed by the Slavery Abolishment Act in 1854. Ironically, in 1854, 1864, 1870 and 1882 the Master Services System or *herendiensten* was implemented, which really wasn't much different from its predecessor, and was in reality another form of slavery. *Herendiensten* literally means labour for the use of gentlemen. By 1866 *herendiensten* was well entrenched in the Priangan. In this year, in only five of the regions' 11 provinces (now approximate to *Kabupatens*), 2,356,685 days of forced labour were registered. Data on the remaining *provinces* was not enumerated. However, it was estimated by Dutch officials that the 2.3 million days of *herendiensten* could be increased to 5.9 million in this province alone if more days in every week were utilised (AR, 1866).

In another regency in Central Java in 1866, Semarang, the total enumerated

population was 201,684. Of these, 32,539 forced labourers provided 154,395 days of labour. A significant proportion of these duties were for the benefit of native leaders (AR, 1866). When these figures are compared with the Priangan, significant differences arise, apart from the very large anomaly in labour days worked. There were no provisions to supply labour for indigenous leaders in the Priangan, as in Semarang. Moreover, the enumeration of labour for *herendiensten* in the Semarang regency was based upon landownership. In the Priangan it was based upon population (labour as a resource). Significantly different cultures of labour relations existed in different regions of Java, due to the very different histories which shaped these cultures. These differences need to be acknowledged in contemporary analyses of labour in different areas of Indonesia. Labour issues in Indonesia are more rooted with the Dutch than with any other culture.

Further labour laws were implemented during the years 1880, 1889, 1891, 1897, 1915, 1931 and 1936. In these years the Coolie Ordinance Act was established and abolished. This act was introduced to replace *herendiensten*, which was supposed to have been abolished at about the same time as the Coolie laws were introduced, yet it continued in the Priangan for decades after its legal abolition. Another 21 similar acts were passed between 1850 and 1940 (Mathias, 1965: 184).

Many labour laws were also implemented in this era specifically to protect women. The Civil Code of 1927 (article 16f) stated that women entering formal employment



were considered to have had their husbands' permission and her wages were to be used for the benefit of her family only. The Labour Ordinance Act of 1925 prohibited women from working between the hours of 10 PM and 5 AM, to protect them from factory work at night, ideally when they should be tending to family matters. This was upgraded in 1941 to allow women to work at night in certain factories depending upon demand. These laws have been re-written by Indonesia and adopted in their 1948, 1951 and 1989 Labour Laws and constitutions (see GRC, 1994/95: 334-335 & Vlekke, 1957: 77).

### Industrialisation in the 20th Century

The 1920s was the period of increased export-oriented production in Indonesia. Products such as petrol, rubber and sugar dominated. Import substitution was primary policy for other goods, with textiles earmarked as a major substitutable good (Broek, 1942: 55-77). After the Great Depression and with massive population increase, high unemployment and decreasing living standards in Java, the Dutch realised more diversified, industrial development had to be pursued. Dutch census data of the era reveal how quickly Indonesia could industrialise without Dutch interference.

By 1930 the official Indonesian industrial work force had grown to 677,194 or 10.6 per cent of the entire working population in Indonesia. One third of these were employed in textiles (Nitisastro, 1970: 84). In 1940 there were 2,642 export-oriented factories registered in Indonesia. These were only macro-economic official figures

and distorted the real extent of manufacturing in Java. For example, according to the Department of Economic Affairs, in one large village area near Bandung (probably Majalengka) in 1940, 1,500 large and small textile businesses were bought and sold (Sitsen, 1940: 15-21). These figures contradict claims that Indonesia only really began to industrialise in the late 1920s. They also highlight the extensive nature of small scale manufacturing in Indonesia, as they do the inadequacies and biases of the Dutch data.

By 1939, three hundred thousand people were employed in Javanese factories using mechanical power. Medium sized, non-powered manufacturers employed another six hundred thousand people and in the small scale industry significantly higher numbers were employed. In 1930 only five hundred automatic looms were in operation in Java's textile sector. By 1935, four thousand were in operation and by 1940, thirty five thousand were in use. Further, in 1930 there were 40 mechanical looms in use, by 1940 there were six thousand six hundred such looms in use. In 1939 there were approximately seventy thousand workers in the textile sector, most of whom were women. The average monthly industrial wage in Java in 1940 was 6.82 guilders, but in the textile sector the wage was only 5.86 guilders (SJVN, 1941). However, the real number of female workers who earned part of their income from textile manufacture in Java was closer to several hundred thousand due to the informal nature of the industry (Broek, 1942: 81-84).

West Java has clearly been the manufacturing centre in Indonesian history, as



it remains today. However, this is only true in the European industrial sense because before the arrival of the Dutch most of West Java was a slash and burn economy. In 1928 there were 1,298 registered factories in West Java. Of these, roughly half were associated with the estate industry. In the same year there were only 579 factories in Central Java and 950 in East Java. In 1928 there were 78,728 male and 24,300 females working in the manufacturing sector in Java (SJVN, 1928). However, these figures only relate to factories which were registered under the Dutch Safety-Ordinance Act.

In 1929 there were 1,406 registered factories in West Java under the above act, a slight increase from 1928. Most were located in the Sundanese-dominated Priangan region and in Batavia. Of these, less than half were in the estate sector, highlighting the continuing decline of this sector when compared to previous figures (1928 above). Female participation in industry was 42 per cent in 1929 which is comparable to 1995 figures.

By 1939 in the entire work force, female participation as a ratio to male was 31 per cent, highlighting the significance of female labour in Java's industrial development. Considering that women were restricted by Dutch law from work considered unsuitable, and were strictly segregated to gender-specific employment, and also considering the demographic constraints of the day (according to the 1990 Indonesian Census there were over 600,000 women living in West Java married at 13 years or younger in 1990), the ratio of female factory workers to their male

counterparts was extremely high in this era.

## Textiles

Wolf (1982: 267) claims the "Major vehicle for the transition to the capitalist mode of production was the textile industry of 18th century England.

"In Indonesia's industrialisation, arguably no industry has been, and continues to be, more important than textiles and garments. Textiles have been produced in the archipelago for centuries" (Hill, 1991: 89).

The Great Depression of the 1930s devastated all the Indies major plantation exports. The Dutch turned to industries such as textiles to avoid economic hardship. During this decade the textile industry in West Java grew rapidly. 180 textile mills registered in 1930 grew to 2,030 in 1938. The number of modern handlooms grew from 500 to 49,000 and 40 powerlooms became 9,800 in the same period (Sitsen, 1940: 33). 86 per cent of total mills and 80 per cent of the looms were located in the Priangan.

Between 1950-1965 the textile sector spearheaded Indonesia's import substitution drive. After the 1960s a technological revolution changed the sector and handlooms were replaced by new and very large integrated textile mills. After the 1980s textiles and garments became the nation's largest exporter, behind the concessionary case of plywood. Within the textile industry weaving is the largest sector with the longest history (Hill, 1991: 90-91).



In 1955 Textiles were primarily in Dutch and Chinese hands. By 1965 the industry was mainly in Indonesian and Chinese hands and by the 1990s it was the Chinese and Japanese who dominated (Mathias, 1965: 214). In 1983 eighty per cent of Indonesian textile exports and twenty-eight per cent of all production were in Japanese hands (Antlov & Svensson, 1991: 87).

The nature of the textile industry in the Priangan in the 1950s, and more specifically in the Bandung regency, shows clearly continuing Dutch influence in post-colonial Indonesia. The ownership of capital in the weaving sector in Bandung was as follows, Rp140 million was with foreign capital (mainly Chinese and Dutch) and only Rp 9 million was with the Indonesians themselves (Robison, 1986: 44). In 1990 Chinese and Japanese interests controlled 80 per cent of the capital in the textile sector in the Bandung regency.

In 1987 textiles accounted for 10 per cent of output and 18 per cent of employment in the large and medium firms in Indonesia. Spinning and weaving dominated these figures, creating 80 per cent of output and 75 per cent of employment. (Hill, 1991: 93). Between 1980 and 1990 the value of textile exports from Indonesia increased from \$161.2 million to \$2,506.9 million in constant 1982 prices. At the same time a myriad of government laws, which had previously restricted foreign investment in the manufacturing sector in Indonesia, were either loosened or completely changed, to attract foreign investment. West Java continues to dominate the textile industry. In 1988 67 per cent of all textile and 86 per cent of all garment factories were

located in Jakarta/West Java (Hill, 1991: 95-107). The textile sector in Indonesia has been strongly influenced by a myriad of foreign cultures and as such should be viewed in terms of its relationship to these cultures and their very different attitudes towards labour. Further, the fact that textiles have spearheaded Indonesia's industrial development this century, and the fact that women have been constantly prevalent in its workforce, reinforces the important role women have played in the nation's development. Labour standards in contemporary Indonesia are historically rooted, they have been inherited from the past. They are not simply a creation of the present as many claim.

## Feminising Industry

Modern export-oriented labour intensive manufacturing development in Indonesia has been claimed to have created a new *feminised* work force for the manufacturing sector. However, analyses of Dutch and British census data reveal that the 1990s are in many ways a carbon copy of the late 19th and early 20th Centuries. In both periods the industrial sector was similarly reliant upon cheaper, gender specific labour.

Lim (1993: 195) claims the feminisation of labour in the developing world along the Asia-Pacific Rim was relative to three economic phases: (1) The boom years of the 1960s and 1970s; (2) The world recession of the 1980s; (3) Structural adjustments in accordance with point 2, where upon economic recession forced manufactures to cut costs by replacing male labour with less expensive female labour.



However, to claim feminisation of manufacturing is a recent phenomenon is naive.

Feminisation of manufacturing in Java is not a new phenomena. According to the 1905 population Census, there were 77,000 industrial workers in West Java. Most were in Bandung and Batavia, 33 per cent were women. By 1930 the number of industrial workers in West Java alone had risen to 347,000, fifty-one per cent of whom were women (Sayogyo & Wahyuni, 1994: 42).

In 1928 a snapshot of the Dutch/Indonesian manufacturing industry is provided by census data. The gross rate for female activity in 1928 was 25 per cent as opposed to the FLPR of 39 per cent in the early 1990s. Considering that gender under-enumeration was significant in the Dutch period, as well as the fact that women were not culturally accepted as public workers by the Dutch, these figures should be considered more homogenous.

According to the 1930 Dutch Census, there were 20,279,642 Native Workers in Indonesia of which 44 per cent were female. Of these, 14.5 million were located in Java, of which 48 per cent were female; 11 per cent of total workers were in the manufacturing sector. Of this 11 per cent, 66 per cent were female. (SJVN, 1941). Between 1971 and 1990 FLPRs (Female Labour Participation Ratio) only rose from 32 per cent to 39 per cent in Indonesia (Oey-Gardiner, 1993: 204). While there is a lack of methodological fit between the two sets of figures from two very different eras, the figures significantly deny Lim's claims.

## Conclusion

When the Dutch and British recorded their own interpretations of Indonesian history they did so with extreme bias. Ideas about the economic role of women were transported from Holland and England into their census data. As a result, women as labour were commonly ignored. Yet the statistics reveal a different story and highlight the need for re-evaluation. Indonesian economic history has merely tended to record formal industrial enterprise, probably because this was the main money earner for the colonists. It was therefore convenient for the Europeans to assume that industrial development could not occur in Indonesia without the support of Western experts. Some historians may still argue this point, however this paper has raised issues which counter claim Eurocentric analyses and provided incentive for further discussion. Finally, the idea that the export-oriented phase of Indonesia's development, since the 1970s, has created a new feminised labour force is a simplistic assumption. It ignores women as active in the economic development of Indonesia prior to the 1970s. It seemingly belittles their historical roles, which have always been important, despite the fact that most were not formally recorded in classic economic terms.

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# Internal Migration Between Java-Bali and Eastern Indonesia

*Soewartoyo\**

**I**NTERNAL migration between two regions can be analyzed in terms of push and pull factors in each region (Lee, 1996). People commonly move from poorer areas to areas with opportunity, since their aim in life is to improve their status and standard of living. Todaro (1976: 21-30) noted that most people move for economic reasons. Some regions attract migrants because they offer better employment opportunities. In this respect, Indonesia has been no exception.

Push and pull factors are commonly related to socio-economic conditions in terms of economic growth, education, employment and agriculture development. Push factors relate to the place of origin. They are factors such as poverty or limited job opportunities which can motivate

people to move from their region. Pull factors relate to the place of destination; they are factors such as high wages, job opportunities and educational facilities which can attract people to move to a place. Both are closely linked to the development process within a region. Java-Bali is more developed and has better employment opportunities than the outer islands, which include the provinces of Eastern Indonesia. Java-Bali is also the centre of administration and education.

Java-Bali is an area of attraction that pulls Indonesians. Many move to the region to find jobs, improve their education and increase their social status. The relatively high level of development in Java-Bali and its high population density has led to a shortage of land. As a result, the numbers of landless or near landless people have increased (Hugo et al., 1987: 58).

Many poor land owners and landless labourers have been forced to seek other jobs in the non-agricultural sectors be-

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cause the increased productivity of agriculture has not been associated with an increase in labour absorption in agriculture. However, Java-Bali has a population problem as well as population pressure due to the relatively high rates of population growth in the past. This causes a high level of unemployment despite the regions's higher level of development.

By contrast, Eastern Indonesia is poorer and has low levels of development that tend to push those seeking modern sector jobs out to more developed areas. However, the population in the provinces of Eastern Indonesia has better access to agricultural land than people in Java-Bali, and there are still opportunities for opening new land for agricultural development. For example, the provinces of Irian Jaya and Maluku receive transmigrants from Java who are settled free on government land settlement schemes. Job opportunities in the non-agricultural sector in Eastern Indonesia are very limited because of the low level of development.

Compulsory primary education, which was implemented at the beginning of REPELITA IV (Fourth Five Year Development Plan, 1983-1988), and expanding secondary schooling have tended to raise expectations, especially of youth. This has led many rural youths to migrate to urban areas and centres of growth (Oey, 1985: 233). Java-Bali provides increasingly better educational facilities in both public and private schools than Eastern Indonesia (Hill, 1992: 367). Therefore, this area attracts education seekers from Eastern Indonesia.

In addition to the effect of push and pull factors pushing and attracting dif-

ferent groups, migration itself is a selective process. The selectivity of migration results in a different impact on sending and receiving areas. Migration is selective of a number of individual characteristics, including education. Educated people may migrate to other regions for better opportunities to improve their socioeconomic status. As a result, the place of origin will lose potential labour with skills and experience. Migration patterns in developing countries vary in terms of sex and age selectivity. In most developing countries, most migrants are young (Gibbon, 1990: 13). This means that the place of origin loses part of its potential labour force.

Costello et al. (1987: 53-54) found that in Southeast Asia a very large percentage of migrants were males. In inter-regional migration in Java, females were also mobile than males in the late 1970s (Hugo, 1981: 118). The sex selectivity of internal migration between two regions may be affected by distance, as studies have found that women tend to move over shorter distances. It is also affected by sex-specific employment opportunities, and may affect the fertility rate if the number of migrant is large.

The study of migration in less developed provinces in Indonesia such as West and East Nusa Tenggara in Eastern Indonesia has been given little attention (Hugo, 1981: 102). *Firstly*, this is probably because of the comparatively low migration rates in such regions. *Secondly*, since the provinces of Eastern Indonesia have small populations by Indonesian standards, the number of migrants involved is also comparatively small. *Thirdly*, it is only recently that the Indonesian government has begun



to focus its attention on the development problems of Eastern Indonesia. Another reason for the limited research on this topic is that migration research in Indonesia has tended to concentrate on areas of in-migration (pull areas) such as Java, Bali and Sumatra. Thus, Java-Bali has been well researched but push areas in Eastern Indonesia have not.

There are two objectives of this study. The first is to describe the demographic and socio-economic characteristics of life-time migrants from Java-Bali and Eastern Indonesia. The second is to examine the employment and education characteristics of life-time migrants from Eastern Indonesia and Java-Bali in order to identify the net effect of inter-regional migration on each area. The study uses data on life-time interprovincial migration. The definition of a life time interprovincial migrant is a person whose province of birth is different from the province of current residence. This definition covers a very wide time span and the actual time of the move cannot be identified. Because this paper is concerned with the relationship between migration and the process of development, it would have been better to use data on recent migration, such as over the previous 10-15 years.

The numbers of recent migrants in the data set for this study are limited to those moving between the 1980 census and 1985 and these numbers are too small for analysis. Therefore, this paper is based on life-time migrants. Since the analysis focuses on only two regions, namely Java-Bali and Eastern Indonesia, weighting factors are not used.

This paper has three sections. *Firstly*, the data sources and regional setting of Eastern Indonesia and Java-Bali are described. *Secondly*, the socio-economic characteristics of migrants in the migration streams moving between the two regions are examined with particular emphasis on education and employment. *Finally*, the discussion summarises the differential impact of migration on the two regions and the implications for development policy.

## Data Sources

The data for the paper are taken from Indonesian Intercensal Survey 1985 (SUPAS). A detailed description of the SUPAS methodology and techniques has been presented by the Indonesian Central Bureau of Statistics (BPS, 1986). Several difficulties should be considered in analysing migration based on survey data. The data refer to the characteristics of migrants at the time of the survey in the place of enumeration; therefore, the analysis may reflect the population on the past.

Another consideration is that the 1985 SUPAS has a smaller sample size than the census. Sample size is critical for analysing the population of small provinces, and this resulted in a decision to analyse Eastern Indonesia as a whole rather than individual provinces. Another weakness is that the survey sample frame was based on the previous census and thus does not include new areas of settlement. As a result, the 1985 SUPAS may not adequately cover new settlement such as transmigration areas in Eastern Indonesia.



## Characteristics of the Regions and Population Disparities

Since the time of Dutch occupation, more than 60 per cent of Indonesia's population has been located in Java and Bali, which together comprise about seven per cent of the total Indonesian land area. The largest islands such as Irian Jaya and Kalimantan are only inhabited by relatively small populations. Population pressure in Java-Bali reflects high population densities. Java-Bali has a much higher population density than Eastern Indonesia, although population density in Eastern Indonesia is also continuing to increase. The 1961, 1971 and 1980 censuses showed that population density in Java was 476, 576 and 681 persons per square kilometre, respectively. By contrast, population density in Maluku and Irian Jaya in 1980 was not more than six persons, and in Nusa Tenggara was about 106 person per square kilometre (BPS, 1987: 48-49).

Java-Bali has a large population; Jakarta, the most densely populated province in Indonesia, in 1980 had a population of about 6.5 million. This increased to 7.9 million in 1985, and 8.2 million in 1990, an average annual rate of growth of about 2.4 per cent for the period 1980-1990. The other provinces of Java-Bali also have large populations. West Java in 1990 had 35.3 million people, becoming the most populous province and replacing East Java as the Indonesian province with the largest total population. By contrast, Yogyakarta had the lowest average annual rate of population growth (0.58 per cent) in the period 1980 to 1990 (Ananta and Arifin, 1990: 11). Both Yogyakarta and Central

Java had negative net migration, as did Bali where net lifetime migration was minus 4 per cent in 1985 (Mantra, 1987: 19).

Java-Bali is also relatively developed with many large and medium industries, particularly in some of the largest cities in Java such as Jakarta, Bandung and Surabaya. This causes the region to absorb large numbers of workers in the manufacturing and service industries. Because of the large population, employment opportunities remain fewer than the number of workers seeking jobs, especially for unskilled labour. Thus, many people move out from Java to outer islands to look for alternatives.

In contrast to Java-Bali, Eastern Indonesia, which includes the provinces of West and East Nusa Tenggara, East Timor, Maluku and Irian Jaya, is comprised of many islands, some of which are quite small. Population density in Eastern Indonesia in 1980 was approximately 15 persons per square kilometre, which is very low compared with 681 people per square kilometre in Java and Bali (BPS, 1987: 48-49). On the other hand, the average annual growth rate of population in Eastern Indonesia was greater than in some provinces in Java, reflecting higher rates of immigration. For example, the annual rate of growth of Irian Jaya was 3.1 per cent, Maluku 2.7 per cent and East Timor 2.7 per cent during the period 1980-1985 (Hugo and Rahardjo, 1987: 18).

Eastern Indonesia has lower agricultural productivity than Java-Bali because its soils are less fertile. Constraints on development include limited natural resources, poor soil and lack of suitable



water storage for irrigation (Corner, 1989: 179; Daroesman, 1986: 47). There is also limited market potential for broadly-based urban development and a lack of communication and transportation facilities, although the Central government has subsidised some infrastructure projects. Consequently, the overall level of development in Eastern Indonesia is much lower than in Java-Bali.

Population pressure on agricultural land is often a cause of migration (Simmons et al., 1977: 46). Agricultural land ownership is an indicator of population pressure. The average area of agricultural land owned by household in Eastern Indonesia is larger than in Java-Bali. For example, 50 per cent of the household in Java-Bali own less than 0.25 ha. or own no land, but in Eastern Indonesia the corresponding figure is less than 20 per cent (Table 1).

Table 1  
AREA OF AGRICULTURAL LAND OWNED,  
JAVA-BALI AND EASTERN INDONESIA, 1985  
(Percentage)

Province	Areas of agricultural land owned (ha)			
	less than		more than	
	None	0.25	0.26-0.99	1.00
Java-Bali	25	25	44	6
Jakarta	65	13	14	8
West Java	29	26	31	13
Central Java	22	22	33	12
Yogyakarta	8	41	36	10
East Java	25	20	41	14
Bali	18	16	45	21
Eastern Indonesia	11	8	50	31
West Nusa Tenggara	23	13	37	27
East Nusa Tenggara	4	3	28	66
East Timor	1	3	18	78
Maluku	8	3	12	77
Irian Jaya	7	15	35	43
Indonesia	20	16	45	19

Source: BPS, (1987), Population of Indonesia: *Hasil Penduduk Antar Sensus 1985* (Results of the Population Intercensal Survey 1985), no. 5, Table 58.3, 344.

This does not mean that Eastern Indonesia has higher agricultural production than Java-Bali because Eastern Indonesia also has poor soil and poor irrigation facilities. Despite this, households in Eastern Indonesia are more dependent on agriculture than in more developed Java-Bali (Table 2). As a result, Eastern Indonesia is also much poorer than Java and Bali. This is reflected in Regional Domestic Product per capita (Table 3).

Education has an important effect on migration. As a determinant of migration education can be viewed from two perspectives (Simmons et al., 1977: 24). *First*, different levels of educational attainment result in different rates of internal migration because more educated migrants received high returns to their movement; and *second*, a desire to acquire higher levels of education may cause migration. A better educated individual may migrate to another place to find suitable employment (Corner, 1991: 148). Young people seeking education may also move to urban centres with better educational facilities. Lack of educational facilities is often a main or secondary reason for out-migration (Kosinski, 1975: 213). In Indonesia, the gap between educational attainment Java-Bali and some of the provinces of Eastern Indonesia is not as large as might be expected from their level of development. During the period of Dutch colonisation, education was more advanced in the predominantly Christian areas of Eastern Indonesia, such as Maluku and North Sulawesi than on Java (Hugo et al., 1987: 60-61; Meyer and Larson, 1987: 3).



Table 2

PRIMARY SOURCE OF HOUSEHOLD INCOME, JAVA-BALI AND  
EASTERN INDONESIA, 1985  
(Percentage)

Province	None Agriculture	Agriculture only	Mixed	Total
Java-Bali	45	34	21	100
Jakarta	98	1	1	100
West Java	46	32	22	100
Central Java	37	39	24	100
Yogyakarta	35	29	36	100
East Java	38	41	21	100
Bali	34	40	36	100
Eastern Indonesia	24	58	18	100
West Nusa Tenggara	33	44	33	100
East Nusa Tenggara	12	73	23	100
East Timor	12	72	16	100
Maluku	24	58	18	100
Irian Jaya	34	54	12	100
Indonesia	40	40	20	100

Source: BPS, (1987), Population of Indonesia: *Hasil Survey Penduduk Antar Sensus 1985* (Results of the Population Intercensal Survey 1985), no. 5, Table 57.3, 341.

Table 3

GROSS REGIONAL DOMESTIC PRODUCT PER CAPITA, JAVA-BALI  
AND EASTERN INDONESIA, AT CURRENT PRICES 1980-1984 (In Rp. 1,000,-)

Province	1980	1982	1984
Java-Bali			
Jakarta	624.7	858.2	1,226.2
West Java	207.7	270.4	387.5
Central Java	160.9	232.5	307.2
Yogyakarta	148.3	207.9	308.6
East Java	210.0	281.7	401.4
Bali	197.9	291.2	419.7
Eastern Indonesia			
West Nusa Tenggara	111.0	158.1	211.6
East Nusa Tenggara	104.0	144.7	203.1
East Timor	-	129.4	174.0
Maluku	272.7	317.9	405.1
Irian Jaya	600.4	648.0	704.1

Source: BPS, (1987), *Statistical Yearbook of Indonesia 1987*, Table 11.12, 652.



In the modern period, education levels in Eastern Indonesia have been generally lower than in Java-Bali, especially at higher levels (secondary school and above) because educational facilities in Java and Bali are better than in Eastern Indonesia. Table 4 shows that in 1985, 80 per cent of the population more than 10 years of age in Java-Bali had ever attended school, compared with only 71 per cent in Eastern Indonesia. However, there are exceptions: Meyer and Larson (1987: 5) noted that in Irian Jaya the level of school attendance for the population 13-15 years is higher than the national level. The three most heavily populated provinces in Java also have lower levels of education than the national level.

Migration from Java to the outer islands has occurred since the Dutch occupation of Indonesia. The population of Java-Bali was larger than in the other islands, stimulating the Dutch to introduce colonisation programs to compensate for the uneven distribution of population between Java and the other islands. After Indonesian independence, this program became the transmigration program.

The Eastern region did not receive any transmigrants during the Dutch period but during the 1970s, Maluku and Irian Jaya received a significant number of transmigrants. These numbers continued to increase for several years (Hugo et al., 1987: 184).

Table 4  
EDUCATION ATTAINMENT OF POPULATION 10 YEARS OF AGE AND OVER  
JAVA-BALI AND EASTERN INDONESIA, 1985  
(Percentage)

Province	never attended school	some primary	Primary school completed	Junior secondary completed	Senior secondary & higher
Java-Bali	20	35	27	8	8
Jakarta	8	24	28	18	23
West Java	16	38	31	7	7
Central Java	21	40	26	7	6
Yogyakarta	23	27	25	11	12
East Java	26	36	25	7	6
Bali	28	30	25	8	7
Eastern Indonesia	29	38	22	6	5
West Nusa Tenggara	34	36	19	6	5
East Nusa Tenggara	24	42	25	5	4
East Timor	66	23	8	2	2
Maluku	8	44	32	9	7
Irian Jaya	19	38	27	7	8
Indonesia	19	38	27	8	8

Source: BPS, (1987), Population of Indonesia: *Hasil Survey Penduduk Antar Sensus 1985* (Results of the Population Intercensal Survey 1985), no. 5, Table 24.9, 54.



Transmigrants from Java-Bali commonly have low socio-economic status, own little or no land, and have low levels of education. The transmigration schemes in Irian Jaya were located around the capital city of Jayapura, which tended to encourage the economic growth of the city through the support of rural production. Rural areas also benefited in terms of better government services and market accessibility (Manning and Rumbiak, 1989: 36,55).

The two provinces of East and West Nusa Tenggara received little attention from the transmigration program. During the period 1973/74 to 1983/84, approximately 42,000 people were moved from West Nusa Tenggara to Sulawesi and Kalimantan (Corner, 1989: 190). However, after the 1970s, transmigration from West Nusa Tenggara ceased. Nevertheless, some internal transmigration occurred within West Nusa Tenggara, such as from Lombok to Sumbawa.

Lifetime Migrants

The total number of lifetime migrants from Java and Bali into Eastern Indonesia was about four times the number of lifetime migrants from Eastern Indonesia to Java-Bali (Table 5 and 6). There are a number of reasons for this. *First*, Irian Jaya and Maluku were important receiving areas of transmigration programs. For example, from the 1960s to 1979-1983 (REPELITA III), 8,185 transmigrant families moved to Maluku and 17,116 moved to Irian Jaya (Tirtosudarmo, 1990: 141). *Second*, land pressure in Java-Bali is greater than in Eastern Indonesia. Thus,

the landless and small cultivators of Java-Bali were likely to seek land in other provinces because of the shortage of jobs for unskilled labour in Java-Bali.

*Third*, Irian Jaya and East Timor are relatively new provinces that are still being integrated into Indonesia. Consequently, many new government positions in the two provinces had to be filled by people from Java or Bali. This helps to explain why Irian Jaya has the highest proportion of the migrants from Java-Bali (34 per cent). Irian Jaya during the 1970s and early 1980 had a remarkable rate of economic growth, especially because of the expansion of the non-agricultural sector, which was heavily supported by central government subsidy (Manning and Rumbiak, 1989: 6-7). This contributed to an increase in the numbers of labour migrants moving to this region, including the transmigrants.

Table 5  
LIFETIME IN-MIGRANTS FROM  
JAVA-BALI BY PROVINCE OF DESTINATION  
EASTERN INDONESIA, 1985  
(Percentage)

Province of destination	Male	Female	Total
West Nusa Tenggara	21	19	20
East Nusa Tenggara	19	19	19
East Timor	4	2	3
Maluku	22	26	24
Irian Jaya	34	34	34
Total	100	100	100
Number of cases	661	598	1259

Source: *Subset Data SUPAS 1985*, GDP-NCDS ANU, 1992.



Table 6

LIFETIME IN-MIGRANTS FROM  
EASTERN INDONESIA BY PROVINCE OF  
DESTINATION JAVA-BALI, 1985  
(Percentage)

Province of destination	Male	Female	Total
Jakarta & West Java	48	45	47
Central Java & Yogyakarta	18	14	16
East Java	22	24	23
Bali	12	17	14
Total	100	100	100
Number of cases	210	126	336

Source: *Subset Data SUPAS 1985*, GDP-NCDS ANU, 1992

Migrants usually move to industrial centres or growth centres. Jakarta and the surrounding areas of West Java are centres for industrial activity. About 47 per cent of the migrants from Eastern Indonesia moved to Jakarta or West Java. The second most important destination was East Java. Jones and Manning (1992: 391) noted that the Surabaya, Mojokerto, Pasuruan and Sidoarjo regions in East Java have absorbed a large volume of employment in medium and large industries, which may help to explain the number of migrants moving to the region from Eastern Indonesia. Central Java and Yogyakarta received about 16 per cent of lifetime migrants from Eastern Indonesia. Most of these stayed in Yogyakarta, perhaps because Yogyakarta is a major centre of education where many students come to study.

Socio-Economic Differences

Migrants can be characterised as a form of human capital. Characteristics such as

sex, age, education and employment indicate the potential contribution of the migrant to the labour force (Speare and Harris, 1986: 225; Roy et al., 1992: 58). Migration is also selective in terms of demographic characteristics and education level, so that migrants tend to differ from non-migrants in both the place of origin and place of destination.

Sex differences in migration streams may have important effects on fertility and marriage patterns, but the number of life-time migrants from Eastern Indonesia to Java-Bali is too small in relation to the total population for these effects to be significant. Sex differences between the migrants from Java-Bali who move to Eastern Indonesia and those from Eastern Indonesia who move to Java-Bali are shown at Table 7. Males are a higher proportion than females for both migrants from Java-Bali and Eastern Indonesia. Males comprise 63 per cent of migrants from Eastern Indonesia to Java-Bali, and 53 per cent for migrants from Java and Bali to Eastern Indonesia. Previous research (Hugo, 1981; Mantra, 1981; Tirtosudarmo, 1986) also found that males were dominant. This may reflect the influence of the distance between two regions and the higher labour force participation rates of Indonesian males.

Age structure generally can be used to reflect the potential working life of migrants. Because the study uses life-time migration, the age information cannot be related to the time of move. Because most migrants were still young at the time of survey, they were also obviously young at the time of the move. Table 7 indicates that the age differences between the mi-



grants moving from Java-Bali and those from Eastern Indonesia are not wide. The peak for both groups lies within the 25-34 years age group. Individuals in these age groups are likely to be in the labour force. Table 7 also shows that, females were younger than males. This supports the conventional finding that migrants are commonly younger and of working age.

Table 8 shows differences in the marital status of life-time migrants from the two regions. Marital status may be closely associated with reasons for migration (Hugo, 1981: 124). United Nations (1984: 30) noted that family ties and marriage formation factors play an important role in migration. Costello et al., (1987: 54) found that most migrants in Indonesia were married.

Table 7

LIFETIME MIGRANTS BETWEEN EASTERN INDONESIA, JAVA-BALI  
BY AGES AND SEX, 1985  
(Percentage)

Age Group	From Eastern Indonesia to Java-Bali			From Java-Bali to Eastern Indonesia		
	Male	Female	Total	Male	Female	Total
Less than 15	15	28	20	17	19	18
15 - 24	24	22	24	25	26	25
25 - 34	29	26	28	28	29	28
35 - 44	16	12	14	17	12	15
More than 45	16	12	14	13	14	14
Total	100	100	100	100	100	100
Number of cases	210	126	336	661	598	1259

Source: *Subset Data SUPAS 1985*, GDP-NCDS ANU, 1992

Table 8

LIFETIME MIGRANTS BETWEEN EASTERN INDONESIA AND JAVA-BALI  
BY MARITAL STATUS AND SEX, 1985  
(Percentage)

Marital Status	From Eastern Indonesia to Java-Bali			From Java-Bali to Eastern Indonesia		
	Male	Female	Total	Male	Female	Total
Never Married	50	52	51	47	30	39
Married	49	39	45	51	64	57
Widowed	(1)	2	1	(3)	2	1
Divorced	-	6	2	1	4	3
Total	99	100	100	99	100	100
Number of cases	210	126	336	661	598	1259

Source: *Subset Data SUPAS 1985*, GDP-NCDS ANU, 1992

( ) : absolute number shown for cells with less than 5 observations.



Table 8 indicates large marital status differences between the two groups. Most migrants (57 per cent) from Java-Bali were married, but only 45 per cent of the migrants from Eastern Indonesia were married. The difference is largely due to differences in marital status among females. Most females from Java-Bali were married (64 per cent), but only 39 per cent of females from Eastern Indonesia were married. Migration to Java-Bali was thus highly selective of unmarried persons. This may be because some of them were attending school or newly graduated from school. East and West Java include the big cities of Jakarta, Bandung, Surabaya and Kediri where manufacturing provides a significant share of the increase in employment and certain industries absorb large numbers of female workers.

Migrants tend to be more educated, and there seems to be a clear correlation between the level of educational attainment and the propensity to migrate.

Findley (1977: 14-15) pointed out that migration is a means by which the educated maximise returns to their knowledge and skill.

Table 9 shows that lifetime migrants from Eastern Indonesia to Java-Bali had higher levels of education than migrants from Java-Bali moving to East Indonesia. About 44 per cent of migrants from Eastern Indonesia had finished senior high school, compared with only 29 per cent of migrants from Java-Bali. A higher percentage of migrants from Eastern Indonesia also had junior high school, college or university education than migrants who came from Java-Bali.

Some of the migrants from Eastern Indonesia who moved to Java-Bali might have moved to attend school and thus have obtained their education in Java-Bali. Migrants from Java-Bali to Eastern Indonesia included transmigrants, civil servants and voluntary migrants. Most

Table 9  
LIFETIME MIGRANTS BETWEEN EASTERN INDONESIA AND JAVA-BALI  
BY EDUCATIONAL ATTAINMENT AND SEX, 1985  
(Percentage)

Education Attainment	From Eastern Indonesia to Java-Bali			From Java-Bali to Eastern Indonesia		
	Male	Female	Total	Male	Female	Total
Some primary	14	29	20	24	36	29
Primary completed	15	16	15	22	27	25
Junior high school completed	17	26	21	16	17	17
Senior high school completed	44	20	35	27	14	21
College / University	9	10	9	11	6	8
Total	100	100	100	100	100	100
Number of cases	210	126	336	661	598	1259

Source: *Subset Data SUPAS 1985*, GPD-NCDS ANU, 1992



Table 10

LIFETIME MIGRANTS BETWEEN EASTERN INDONESIA AND JAVA-BALI  
BY ACTIVITY AND SEX, 1985  
(Percentage)

Activity	From Eastern Indonesia to Java-Bali			From Java-Bali to Eastern Indonesia		
	Male	Female	Total	Male	Female	Total
Work	57	12	42	76	26	52
Schooling	33	30	32	17	14	15
Housework		46	16	1	55	27
Other	9	9	9	7	5	6
Total	100	100	100	100	100	100
Number of cases	192	105	297	596	532	1128

Source: *Subset Data SUPAS 1985*, GPD-NCDS ANU, 1992

civil servants would be educated, whereas the transmigrants would tend to have lower levels of education. The overall picture suggests that lifetime migration between Java-Bali might reflect a “brain drain” from Eastern Indonesia.

In developing countries, most people migrate primarily for economic reasons (Eckstein, 1976; Lee, 1966; Todaro, 1976). The data on the economic activity of the lifetime migrants suggest that this might not be true for migrants in this study. However, the data refer to economic activity at the time of survey, not when the migrants moved. Table 10 indicates that around half of the migrants were working at the time of survey. More migrants from Java-Bali worked (52 per cent), compared with only 42 per cent of migrants from Eastern Indonesia. Table 10 also shows a high percentage of house workers especially among migrants from Java-Bali. These were mostly females.

A high proportion of migrants from Eastern Indonesia were students, indicating that many migrants from Eastern Indo-

nesia to Java-Bali probably came for education and training. Some of these may have been dependent children moving with their parents. Most female migrants from the two groups worked as houseworkers. Patterns were similar for females in urban and rural areas.

Most migrants lived in rural areas at the time of the survey. Only about 11 per cent of immigrants from Eastern Indonesia lived in urban areas, although around 35 per cent of immigrants from Java-Bali to Eastern Indonesia lived in urban areas. The place of work for many migrants who were resident in rural areas may have been in urban areas.

The Impact of Migration to and from Java-Bali on Eastern Indonesia.<sup>1</sup>

The impact of migration on the place of destination and place of origin is related

<sup>1</sup>The data in this section on the population of Eastern Indonesia as a whole are drawn from pub-



Table 11  
LIFETIME MIGRANTS BETWEEN EASTERN INDONESIA AND JAVA-BALI  
BY ACTIVITIES AND PLACE OF RESIDENCE, 1985  
(Percentage)

Type of activity	From Eastern Indonesia to Java-Bali				From Java-Bali to Eastern Indonesia			
	Rural		Urban		Rural		Urban	
	Male	Female	Male	Female	Male	Female	Male	Female
Work	53	11	80	(3)	73	21	82	36
Schooling	37	31	(3)	(2)	18	16	15	9
Housework	-	45	-	(6)	1	57	(1)	51
Other	10	10	(2)	(1)	8	6	2	4
Total	99	100			100	100	99	100
Number of cases	167	93	25	12	379	356	217	176

Source: *Subset Data SUPAS 1985*, GPD-NCDS ANU, 1992  
( ) : Absolute number shown for cells with less than 5 observation.

to the level of development. Lifetime migrants from Java-Bali to Eastern Indonesia may not have much impact on the place of origin because Java-Bali has such a large population. In Eastern Indonesia migration may have a more significant impact on socio-economic development.

Demographic characteristics, including age, sex and marital status, are related to the human development of migrants and the population in the destination area. Only about 18 per cent of migrants from Java-Bali were aged less than 15 years compared to 43.1 per cent of the population in Eastern Indonesia. Most of the migrants from Java-Bali to Eastern Indonesia were working at the time of survey, but they may have moved as children.

It is difficult to judge the effect of migration in terms of age. The sex ratio of migrants from Java-Bali was about 110 compared with 103 for the population in Eastern Indonesia. Thus, migration tends to increase the migration of males in Eastern Indonesia, although the impact is small.

Around 57 per cent of migrants were married, but only 51 per cent of the population in Eastern Indonesia was married. This may reflect the proportion of transmigrants among the migrants who have to be married in order to be eligible for the program.

Migrants from Java-Bali to Eastern Indonesia had varying levels of educational attainment. About 29 per cent of migrants from Java-Bali to Eastern Indonesia had completed senior high school, compared with only 11 per cent of the population in Eastern Indonesia. Only 29 per cent of migrants from Java-Bali to Eastern Indonesia had less than or some primary education, which was much more

lished data: *Penduduk Indonesia: Hasil Survey Penduduk Antar Sensus 1985* (Population Indonesia: Results of the Population Intercensal Survey 1985), series SUPAS no. 5 (Jakarta: Biro Pusat Statistik, 1987).



than the 67 per cent of Eastern Indonesia's population with less than or some primary education. Thus, migrants tend to increase the level of education in the Eastern Indonesian population.

The proportion of migrants (52 per cent) from Java-Bali to Eastern Indonesia who worked was lower than the proportion of the population of Eastern Indonesia who worked (62 per cent). About 15 per cent of migrants from Java-Bali were in schooling compared with 21 per cent of the population in Eastern Indonesia. However, the proportion of migrants who were houseworkers (27 per cent) was higher than in the general population (10 per cent). This suggests that many migrants may have accompanied their head of household as dependents. The numbers of female houseworkers among migrants are also related to the occupational status of the male migrants. In Indonesia, the wives of men in skilled occupations are likely to choose to be housewives. Migration thus tends to increase the number of people not in the labour force in Eastern Indonesia.

The highest proportion (36 per cent) of migrants from Java-Bali to Eastern Indonesia were employed in white collar jobs in professional, managerial, clerical and administrative occupations (Tables 12 and 13). Only 19 per cent of migrants worked as farmers. Most of these would be transmigrants who moved to Eastern Indonesia. The occupation pattern of migrants was quite different from the occupation pattern of the population in the place of destination in Eastern Indonesia, where

farmers (74 per cent) were in the majority. This suggests that the migrants from Java-Bali have contributed to the development of Eastern Indonesia.

Most migrants (81 per cent) worked in the non-agricultural sectors, whereas most of the population of Eastern Indonesia worked in agriculture (the proportion working in non-agriculture was about 26 per cent).

Migrants working in the non-agricultural sectors in Eastern Indonesia tended to be employed in services or government offices. The proportion of migrants who worked in the manufacturing sector was small (about eight per cent), and about the same as the proportion of the population who worked in manufacturing in Eastern Indonesia (7.2 per cent). The percentage of female migrants from Java-Bali to Eastern Indonesia who worked in services was higher than for male migrants. This pattern occurs throughout Indonesia, where within non-agricultural employment, females tend to work in services rather than in production.

Another important effect of migration arises from the association between occupation and the educational attainment of migrants. Table 13 shows that migrants who had finished senior high school or had higher education tended to work in professional or administrative jobs. Migrants with low education tended to work in agriculture, sales or personnel services. These were likely to be in the informal sector. The educational attainment of migrants was strongly related to their occu-



pation, the more highly skilled the occupations the higher level of education (Table 13). The inflow of educated migrants could contribute to regional development in Eastern Indonesia, as well as enabling the individual migrants to attain a higher standard of living than would

have been possible in Java-Bali.

The number of hours of work is also a measure of migrants contribution to production. Most migrants (76 per cent) from Java-Bali were working more than 36 hours

Table 12  
LIFETIME MIGRANTS BETWEEN EASTERN INDONESIA AND JAVA-BALI  
BY OCCUPATION AND SEX, 1985  
(Percentage)

Occupation	From Eastern Indonesia to Java-Bali			From Java-Bali to Eastern Indonesia		
	Male	Female	Total	Male	Female	Total
Professional, manager, Clerical, Administrative	39	39	39	43	19	36
Sales workers, Services worker	20	50	24	25	50	32
Production worker	40	(1)	35	16	3	12
Agriculture worker/Farmer	(1)	(1)	1	16	27	19
Total	99	95	99	100	100	100
Number of cases	105	18	123	461	172	633

Source: *Subset Data SUPAS 1985*, GPD-NCDS ANU, 1992.  
( ): Absolute number shown for cells with less than 5 observations.

Table 13  
LIFETIME MIGRANTS FROM JAVA-BALI TO EASTERN INDONESIA  
BY OCCUPATION AND EDUCATIONAL ATTAINMENT, 1985  
(Percentage)

Occupation attainment	Some Primary	Primary school complete	Junior secondary completed	Senior secondary completed	College university
Professional, manager etc.	(1)	9	41	71	94
Sales service worker	43	56	37	9	-
Production worker	48	21	6	4	-
Agriculture worker	8	14	16	16	(3)6
Total	99	100	100	100	100
Number of cases	155	149	97	183	49

Source: *Subset Data SUPAS 1985*, GPD-NCDS ANU, 1992.  
( ): Absolute number shown for cells with less than 5 observations.



Table 14

LIFETIME MIGRANTS BETWEEN EASTERN INDONESIA AND JAVA-BALI  
BY EDUCATION AND INDUSTRIES, 1985  
(Percentage)

Education attainment	From Eastern Indonesia to Java-Bali				From Java-Bali to Eastern Indonesia			
	A	M	S	Total	A	M	S	Total
Some primary	(1)	(2)	8	8	63	15	16	24
Primary completed	(1)	16	17	17	27	19	23	24
Junior Secondary completed		22	16	17	5	19	17	15
Senior Secondary completed		50	42	44	5	42	33	29
College/University		(2)	16	14	-	(2)	10	8
Total	2	25	73	99	19	8	73	100
Number of cases	2	32	92	126	118	52	463	633

Source: *Subset Data SUPAS 1985*, GPD-NCDS ANU, 1992.

Note: A = Agriculture, M = Manufacture, S = Services.

( ): Absolute number shown for cells with less than 5 observations.

per week, whereas less than 50 per cent of the population in Eastern Indonesia as a whole worked more than 36 hours per week. Thus, the migrants from Java-Bali have a high level of contribution to socio-economic growth in Eastern Indonesia, because they are usually educated, of working age, find employment in more skilled occupations and work longer hours than the population in the place of destination.

### The Impact of Migration to and from Eastern Indonesia on Java-Bali<sup>2</sup>

<sup>2</sup>The data in this section on the population of Java-Bali as a whole are drawn from publish data (BPS, 1987) *Penduduk Indonesia: Hasil Survey Penduduk Antar Sensus 1985* [Population Indonesia: Results of the Population Intercensal Survey 1985], series SUPAS No. 5 (Jakarta: Biro Pusat Statistik, 1987).

Migrants from Eastern Indonesia to Java-Bali have a smaller impact on the population in the place of destination than migrants from Java-Bali who move to Eastern Indonesia because the population in Java-Bali is large and heterogeneous. The numbers of migrants from Eastern Indonesia to Java-Bali are also much smaller than the numbers of migrants from other provinces such as Sumatra or Sulawesi.

Because migrants from Eastern Indonesia were generally young and educated, at least at the time of survey, this might suggest that Eastern Indonesia is losing its potentially more productive labour. Most migrants (44 per cent) from Eastern Indonesia had finished senior high school or higher education. Only 16 per cent of the population in Java-Bali had finished senior high school or high-



er. Because the population in Java-Bali is so large, the impact of migrants from Eastern Indonesia on the general educational level within Java-Bali would be very small.

Around 59 per cent of migrants from Eastern Indonesia to Java-Bali worked in blue collar jobs as sales, services or production workers. These occupations are also likely to be in the informal sector, and generally require low and middle levels of educational attainment. The percentage of female migrants from Eastern Indonesia who worked in services was also higher than for male migrants. The occupational composition of the migrants reflects the attraction of industries and urban areas in East and West Java, especially near the big cities which absorb many male and female workers.

Almost all migrants from Eastern Indonesia worked in manufacturing (25 per cent) or service (73 per cent) industries

(Table 14), and they were generally educated. Thus, migrants from Eastern Indonesia to Java-Bali tend to have skills and education rather than low socio-economic status. Because less than 50 per cent of the population in Java-Bali worked in the agricultural sector at the time of survey, job opportunities were more likely to be available in non-agricultural sectors which require higher human capital characteristics.

The migrants who move to Java-Bali need higher qualifications, because they must compete for jobs in the place of destination (Java-Bali). They also tend to have higher qualifications because such people cannot find appropriate employment in less developed Eastern Indonesia. Table 15 shows that most of migrants (93 per cent) from Eastern Indonesia worked more than 36 hours per week in Java and Bali compared with about 77 per cent for the population of Java-Bali. Again, mi-

Table 15  
LIFETIME MIGRANTS BETWEEN EASTERN INDONESIA AND JAVA-BALI  
BY HOURS OF WORK PER WEEK AND INDUSTRY, 1985  
(Percentage)

Working hours per week	From Eastern Indonesia to Java-Bali				From Java-Bali to Eastern Indonesia			
	A	M	S	Total	A	M	S	Total
1-35 hours	(1)	-	(6)	(7)	23	7	70	100 (146)
36-40 hours	(1)	(3)	75	(16)	6	6	88	100 (146)
41-50 hours	-	33	67	100 (58)	30	9	61	100 (185)
More than 51 hours	-	22	78	100 (45)	12	12	76	100 (149)
Total	2	25	73	100 (126)	19	8	73	100 (626)

Source: *Subset Data SUPAS 1985*, GPD-NCDS ANU, 1992

Note : A = Agriculture, M = Manufacture, S = Seives.  
( ) : Absolute number shown for cells observations.



grants evidently contribute to development in the place of destination.

## Conclusion

Socio-economic inequality among regions or provinces has long been recognised as a cause of migration movements. Furthermore, migration has also been considered in economic models as a mechanism for improving equality because migrants move from areas of poverty to more developed areas to improve their standard of living. This paper demonstrates that differences between migrant flows between Java-Bali and Eastern Indonesia contribute to development in both regions.

Java-Bali has more a developed socio-economic structure than the outer islands. This region also faces serious population pressure, leading to land shortage, landlessness and an increasing number of new job seekers. Such conditions can push people to move from their place of origin in search of better opportunities. Improvements in education in Java-Bali have not been accompanied by an adequate increase in suitable jobs. Some people migrate to maximise the return on their skills and knowledge. Many migrants from Java-Bali to Eastern Indonesia are civil servants who are transferred by the central government.

Nevertheless, Java-Bali is still recognised as an area of attraction for migrants, because of the better facilities such as schooling and the range of industries and trade. By contrast, people from Eastern Indonesia are pushed out because of low educational facilities and few job oppor-

tunities in their region. Because they need to improve their standard of living, they are pulled to Java-Bali which has better opportunities and choices in terms of employment, education and modern circumstances.

The impact of migrants from Java-Bali to Eastern Indonesia on regional development in place of destination seems more important than that at migrants from Eastern Indonesia to Java-Bali. The positive impact of migrants from Java-Bali can increase the education rate and working age of populations. Migrants may increase output because of their better occupation in the place of destination. Migration might reduce inequality between the regions in terms of socio-economic development. In addition, the negative impact might widen the gap in socio-economic level of living between migrants and indigenous people.

Eastern Indonesia receives a large subsidy from the central government budget, both directly and through programs such as transmigration. However, this support is not strong enough to improve the living standard of people in this region to the level achieved in Java-Bali because of many constraints in terms of physical conditions and resources. Consequently, the migrants from Eastern Indonesia appear to be highly selective in terms of their age, education and occupation because they cannot find suitable opportunities in Eastern Indonesia. The majority of migrants at the time of survey are young and educated adults, who can contribute many years of productive labour at their place of destination in Java-Bali. They will not return to their place or origin because of the limited employment opportunities in Eastern Indonesia.



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## Book Review

### Analysis of *ABRI's* Dual Function

*The Dual Function of the Indonesian Armed Forces: Military Politics in Indonesia*, by Ian MacFarling. New South Wales: Australian Defence Studies Centre, 1996, 241 pp. This review article by M. Abriyanto, Research Staff of Fogma (*Forum Dialog Perdamaian* or Peace Dialog Forum).

**M**ORE and more political analysts, either domestically or foreign, are observing the Indonesian Armed Forces' (ABRI's) involvement in politics today. In fact, the observation was made some time in the past. However, in the course of its development, it seems that the political involvement of the military -- popularly known as *dwifungsi* (dual function) -- increasingly reveal a "unique" feature. Why?

Because the uniqueness has apparently also been critically evaluated amongst the Indonesian Armed Forces themselves. Among others, there were some ABRI

senior officers, on the one hand, who believed that the dual function of ABRI is still and will be always needed for an unforeseeable future. On the other hand, others held that ABRI's dual function was only applicable for a certain period of time. It follows that it only applies to certain condition and situation.

When the two perceptions were put forward, deliberately or not, ABRI's involvement on the national political arena became more intense. A case in point is the stance taken recently by some high ranking ABRI officers "in their political involvement" with regard to the internal affairs of one of the political parties in Indonesia, namely the Indonesian Democratic Party (PDI).

Although ABRI's involvement should not be viewed in isolation, various statements made by senior ABRI officers, who are still in office holding various important government functions, revealed that the socio-political role played by ABRI has



reached a "very sensitive point". Sensitive in the sense that the involvement precisely has elicited questions and criticisms from various circles in society. This has even caused physical clashes between the people and ABRI such as those in the event of seeking a solution of the PDI case on last 27 July.

ABRI's increasing involvement in the national political arena, will in the long run exactly "blur" its role as *stabilisator* (stabilizer) and *dinamisator* (dynamizer) of national development. On the contrary, it will even lead ABRI's socio-political role

to taking side with a certain power elite only.

The example of the case mentioned above, though it was not analysed in this book, Ian Macfarling does in fact try to analyse the political involvement of the Indonesian military since the past up to now.

In the concluding section of his book MacFarling comes to the conclusion that the dual function is in fact "one function", namely the maintenance of national stability. The concept does in fact give a

#### Table

##### COMPARISON BETWEEN OLD AND NEW MILITARY PROFESSIONALISM

Characteristic	Old Professionalism	New Professionalism
Perceived state of the nation	The system of government is accepted as appropriate for the nation. The national government is seen as legitimate because it has been selected through the constitutional system	Praetorian where the system of government is challenged by many groups in society including the armed force
Perceived threat to the nation	External	Internal
Role of the Armed Services	The primary focus is on external defence of the nation in accordance with the civilian government directive. Internal security operations limited by law to "aid to the civil power"	Unrestricted usually with dominance in politics. Internal security is the primary defence function.
Qualities/Skills Required	Expertise in military operational skills in defence of the nation. Internally cohesive. Externally cohesive (mutual respect between civilians and armed forces personnel).	Integrated political and military skills though the military skills may be low because of the limited nature of internal security operations. Internally cohesive -- perhaps indoctrinated.
Civil-Military Relations	Armed Services subordinate to the civilian government. Armed Services politically neutral "serving the nation" in a <i>difficult and morally ambiguous task</i> .	Armed Services dominant in the regime. Armed Services politically active, perhaps in support of a preferred elite.



picture that the dual function constitutes an integration of the political involvement of the military, both in the defence-security and socio-political dimensions.

He highlights the *dwifungsi* concept in light of the theory of “new military professionalism”, which he took from Alfred Stepan (concerning the comparison between Old and New Military Professionalism, see the following appended Table).

Perhaps Stepan’s concept is not precisely one hundred per cent reflected in the *dwifungsi* of ABRI. However, the concept may at least serve to function as frame of reference of the military political game in Indonesia.

The problem is now, provided that the dual function can be maintained now or in the future, MacFarling’s literary work does focus more on: *First*, how the concept of *dwifungsi* came into being. *Second*, how the concept become legally accepted nationally. *Third*, how does the “integration” process of the dual function proper happen in all dimensions of social and state life.

MacFarling does not want to spend all his time in focusing his doctorate research on every case that reveals ABRI’s role in the national political arena. He focuses his research more on matters relating to the policies that are generated by the dual function concept, which is evident from the title of his thesis, namely “The Evolution of the Indonesian Armed Forces: A Case Study in the Fusion of Civil and Military Roles”.

Hence, as a matter of fact, his research findings are not a novelty. One may conclude that the result of his interviews with

a number of high-ranking ABRI officers is still very limited. Because, if we only highlight the ABRI Commanders of the New Order period, each of them respectively has a perspective that is different from each other, which is in accordance with the demands of their own respective era. For example, during General M. Jusuf tenure as ABRI’s Commander. He tried to emphasize on the welfare and professional competence of the military in the defence and security fields. Small wonder when M. Jusuf was the only four starred general who most often visited military barracks throughout Indonesia.

His successor, General Benny Moerdani, further emphasised the restructuring within ABRI. The efforts made in stepping up military professionalism in the defence-security field was evident during the terms of service of Jusuf and Moerdani as ABRI commanders. It cannot be denied that the generals mentioned above considered national stability as the key factor motivating the stepping up of professionalism mentioned above. Both generals tried to improve the capability of the military to anticipate external threats in whatever form. They were really aware of the fact that since the beginning of the New Order period up to the 1970s, ABRI tended to focus more on domestic matters. This is due to the still “partly stable” national stability.

Unfortunately, those efforts were not continued in the following eras. General Try Soetrisno focused on different nuances. It was precisely during Try Soetrisno’s tenure as Commander -- even until now -- that the domestic political atmosphere heated up again, and again “invited” the military



to be deeper involved in the political arena.

It is here that the dual function concept is really tested. Just at the time when political openness began to prevail in Indonesia, at the same time ABRI's socio-political role had to face very significant challenges. General Edy Sudradjat, who happened to hold concurrently three functions (Commander, Defence Minister and the Army Chief of Staff) before the function of Commander was taken over by Faisal Tanjung, within that short period of time, tried to "straighten up" ABRI's socio-political role. This endeavour was then widely known by the mass media under the slogan of "back to basic". There was a strong impression from that slogan that the policy adopted by ABRI came out of the basic that had been really aspired after.

Thus, will ABRI's dual function adapt its implementation in line with demand of the era in Indonesia? It still remains to be seen. And undoubtedly, ABRI is now busily engaged in attempting to reformulate the meaning of its political involvement in quite a number of domestic affairs. If ABRI does not make efforts in redefining or refunctionalising itself, it may happen that the significance of *dwifungsi* which has been inculcated in the military in particular since the New Order period, will be in vain. And the lay people at large, who have so far not really understood the *dwifungsi* concept of ABRI, will very likely become more ignorant about it and might have anti-pathetic feeling against it, if the implementation of the socio-political involvement of ABRI is not placed in its proper position.



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